SBA ENERGY LOAN PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY, ENVIRONMENT, AND SAFETY ISSUES AFFECTING SMALL BUSINESS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

WASHINGTON, D.C., AUGUST 5, 1982

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
12-139 O WASHINGTON : 1982

H721-5

COMMITTEE ON SMALL BUSINESS

PARREN J. MITCHELL, Maryland, *Chairman*

NEAL SMITH, Iowa
JOSEPH P. ADDABBO, New York
HENRY B. GONZALEZ, Texas
JOHN J. LaFALCE, New York
BERKLEY BEDELL, Iowa
FREDERICK W. RICHMOND, New York
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
ANDY IRELAND, Florida
IKE SKELTON, Missouri
BILLY LEE EVANS, Georgia
CHARLES W. STENHOLM, Texas
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
BYRON L. DORGAN, North Dakota
GUS SAVAGE, Illinois
BUDDY ROEMER, Louisiana
JOHN G. FARY, Illinois
——— ———

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
J. WILLIAM STANTON, Ohio
WILLIAM S. BROOMFIELD, Michigan
DAN MARRIOTT, Utah
LYLE WILLIAMS, Ohio
OLYMPIA J. SNOWE, Maine
DANIEL B. CRANE, Illinois
JOHN HILER, Indiana
DAVID MICHAEL STATON, West Virginia
VIN WEBER, Minnesota
HAL DAUB, Nebraska
CHRISTOPHER H. SMITH, New Jersey
ED WEBER, Ohio
DAVID DREIER, California
GUY V. MOLINARI, New York
MARK D. SILJANDER, Michigan

Major L. Clark III, *Staff Director*
Thomas G. Powers, *General Counsel*
Lois Liberty, *Publications Specialist*
Raymond S. Wittig, *Minority Counsel*

Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business

BERKLEY BEDELL, Iowa, *Chairman*

NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
DENNIS E. ECKART, Ohio

SILVIO O. CONTE, Massachusetts
JOHN HILER, Indiana
GUY V. MOLINARI, New York

Marc H. Rosenberg, *Subcommittee Staff Director*
James M. Kulikowski, *Minority Subcommittee Counsel*

CONTENTS

Page

Hearing held on August 5, 1982 1

Opening statements of:

- Bedell, Hon. Berkley, chairman, Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business 1
- Conte, Hon. Silvio O., a Representative in Congress from the State of Massachusetts 2
- Mavroules, Hon. Nicholas, a Representative in Congress from the State of Massachusetts 3

Panel consisting of:

- Stambler, Barrett; Karl Bergey; and David Moulton 25

Testimony of:

- Bergey, Karl H., Jr., president, Bergey Windpower Co., Inc., on behalf of American Wind Energy Association 30
- Holloway, Edwin T., Associate Administrator for Finance, Small Business Administration, accompanied by Charles R. Hertzberg, Deputy Associate Administrator for Financial Assistance, and Lawrence R. Rosenbaum, Director, Office of Planning and Budget 4
- Lyons, Catherine, vice president and chief financial officer, SAFE-BIDCO, Fund for Energy, Sacramento, Calif 12
- Moulton, David H., policy director, Energy Conservation Coalition 34
- Stambler, Barrett, on behalf of Solar Lobby 25
- Stronberg, Joel B., attorney, on behalf of Brick Institute of America 41

Additional material supplied for the hearing record:

- Bergey, Karl H., Jr., president, Bergey Windpower Co., Inc., on behalf of American Wind Energy Association: Prepared statement 33
- Holloway, Edwin T., Associate Administrator for Finance, Small Business Administration: Chart, "Energy Loan Approvals" 8
- Lyons, Catherine, vice president and chief financial officer, SAFE-BIDCO, Fund for Energy, Sacramento, Calif.: Prepared statement and attachment 14
- Moulton, David H., policy director, Energy Conservation Coalition: Prepared statement 37
- Stambler, Barrett, on behalf of Solar Lobby: Prepared statement 27
- Stronberg, Joel B., attorney, on behalf of Brick Institute of America: Prepared statement 43

APPENDIXES

Appendix A.—Staff report: "An Implementation Study of the SBA's Energy Loan Program" 47
Appendix B.—Letter from James Sanders, Administrator, Small Business Administration 80
Appendix C.—Letters from Hon. Sam Gejdenson 85
Appendix D.—SBA memo to field offices, dated February 19, 1982 and May 7 1982 87
Appendix E.—SBA memo to field officers, dated August 13, 1982 90
Appendix F.—SBA internal report on the energy loan program, dated November 1980 92
Appendix G.—Letter from Edwin T. Holloway, commenting on subcommittee staff report 122
Appendix H.—Letter from Karl Bergey 125
Appendix I.—Staff memo, November 1982 126

SBA ENERGY LOAN PROGRAM

THURSDAY, AUGUST 5, 1982

House of Representatives,
Subcommittee on Energy, Environment, and
Safety Issues Affecting Small Business,
Committee on Small Business,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2359-A, Rayburn House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN BEDELL

Mr. **Bedell.** The Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business is meeting this morning to review the status of the energy loan program which is administered by the Small Business Administration.

The energy loan program was established in 1978 to facilitate the entry of small business into new energy technologies. The objective of the program is not only to help those small businesses but also to benefit our society by helping to reduce the consumption of nonrenewable energy resources and by promoting the spread of the new alternative energy technologies.

As the author of the original legislation I may be a little prejudiced but I think this program represents a sound concept and I am pleased that Congress has steadfastly supported the energy loan program even in the face of repeated efforts by various administrations to eliminate it as a separate program or to reduce its funding to inadequate levels.

Today, we will take a look not just at the policy and funding issues but primarily at the implementation of the program. In anticipation of this hearing the subcommittee staff has prepared a report which is entitled, "An Implementation Study of the SBA's Energy Loan Program."

The members of the subcommittee all have had an opportunity to study the staff report and copies have been made available to each of our witnesses. The report will be entered into the record and we invite comments regarding it.

[See app. A.]

Mr. **Bedell.** This report is based on a survey of current participants in the energy loan program. If there are no objections, we will enter into the record a letter from SBA Administrator James Sanders dated May 18 which provides additional information about the survey results.

Are there objections?

[No response.]

Mr. BEDELL. Hearing none, it will be entered in the record.

[See app. B.]

Mr. BEDELL. Our staff study is one topic we can explore today. Another is the persistent reports we get that local SBA offices are turning away applicants for energy loans, saying that no funds are available.

Just last week, a businessman called the subcommittee to report that this had happened to him here in the Washington area.

The chairman has received two letters from Representative Gejdenson, one as recently as this past Monday, saying that potential applicants in Connecticut are being turned away, and there are other examples.

[See app. C.]

Mr. BEDELL. These reports are puzzling because we know that so far in this fiscal year the SBA has used only about $1 million of the $25 million available to it for this program. In previous years they had run out of money by this time.

So a third area of inquiry may be why the activity level in this program seems to be so low, especially when compared to previous years.

Some changes have been made in the program and these may explain it. But there may be other reasons.

Finally, I note that section 6 of Public Law 95-315 requires that the SBA include a special report on the energy loan program in its annual message to Congress.

The statute says in part, and I quote:

> Such report shall contain the number and amount of loans, the number of applicants, the total amount applied for and the number and amount of defaults for each type of equipment or service for which loans are authorized by this subsection and on the projected and actual energy savings and number of jobs created by firms through loans made under section 7(l).

We are not aware of that information ever being formally transmitted to the Congress so we are hopeful that today's hearing will help to get that information into the public record.

At this point I do wish to note that our witnesses today include the SBA's Associate Administrator for Finance, Ed Holloway, who is becoming a regular guest of the subcommittee, and representatives of several organizations whose members are interested in the small business energy loan program.

Also, we are delighted to have a witness from California who will tell us about that State's effort to establish an innovative new program that should complement the SBA's effort to support the movement of small businesses into the new energy areas.

Mr. Conte, did you have a statement?

OPENING STATEMENT OF HON. SILVIO O. CONTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. CONTE. I want to commend you, Mr. Chairman, for calling this oversight hearing to inquire into the status of the small business energy loan program. As you said, you authored this legislation and it is a clear sign of your persistence and integrity that your interest continues beyond the birth of an idea to its care and furthering as well.

Like the chairman, I share a keen interest in fostering the growth of small business in the energy field, not only in the alternative and the renewable energy areas but also in conservation. The possibilities for growth I think seem almost infinite.

In the short run there is a goal of energy independence to shoot for. In the long run there is the vision of a clean and unending supply of energy for the whole world based upon the sun, wind and water, and geothermal sources. And back when we were in the throes of the energy crisis it was so important to get the country going on the road of alternatives.

That goal seems to have faded somehow and I fear that the enthusiasm for this program has faded some as well. I think that that would be a mistake.

I hope we can use these hearings to find out what has happened with the energy loan program and figure out how it can be improved and make sure that those improvements are implemented.

I know neither the chairman nor I are ready to abandon the opportunity this program offers to encourage the growth of small businesses in the alternative and renewable energy areas. This sector should be growing like a beanstalk. This program should be doing its part to foster that growth and I am looking forward to these hearings.

Mr. BEDELL. Thank you, Mr. Conte.

Mr. Mavroules?

OPENING STATEMENT OF HON. NICHOLAS MAVROULES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. MAVROULES. Thank you very much, Mr. Chairman.

I am delighted, as you are, to have these hearings this morning.

Let me at the outset thank Mr. Holloway for his cooperation relative to a very serious problem that I have back home due to a fire which turned out to be a disaster. Within the limits of his responsibilities he has been able to assist us greatly.

However, in view of the fact that it has created quite a problem with legislation, I'll just inform you and other members of the committee that I have filed legislation to see if we can correct a wrong. We are working at it at this present moment.

Again, I want to thank you for allowing me this opportunity to comment briefly on the crucial need of the energy loan program for small businesses that are embarking on alternative energy ventures.

As you all know, I have long been an advocate of alternative energy sources as a way of dealing with our ever-increasing demand for more energy and reducing our dependence on foreign oil. In particular I have advocated development of energy such as photovoltaic electricity in the private and public sectors.

There now is a bill that will be passed hopefully sometime next week under the military construction program for photovoltaic programs within the solar energy system for the military.

Photovoltaic systems have time and time again been shown to be highly reliable and workable systems. On a life cycle basis they compare favorably with the traditional fossil fuel systems. Clearly this is an area of great promise and one in which small businesses could greatly benefit and prosper.

The intent of the energy loan program is to provide Government encouragement for small businesses entering into this new technology.

The SBA program is supposed to focus on small firms that are just entering this field, manufacturing or marketing the new energy technology and which face higher than normal business risk.

Some 30 percent of the loans have gone to firms focusing on solar energy. In many cases it is quite clear that these loans have been absolutely crucial to the success of the industry.

Unfortunately, as was stated by the chairman a moment ago, our studies have shown that the SBA is often overly cautious in awarding the loans and guarantees and has shown a lack of enthusiasm toward the alternative energy industry.

This is evident in the complaint of many small businessmen who are told upon applying for an energy loan that there is no money available. But it is my understanding that there is money available.

Clearly, Mr. Chairman, some questions arise as to whether the SBA is fulfilling the mandate given it by the Congress and I would hope that this hearing will answer those questions.

Again, I would like to commend you, Mr. Bedell, for authoring the original SBA energy loan program. Thank you.

Mr. **Bedell**. Thank you, Mr. Mavroules.

We are pleased to have you back again today, Mr. Holloway. I read there was one Member of Congress who lived here in his office. Maybe you ought to see if you can get an apartment a little closer since you were back here yesterday and again today.

You may proceed.

TESTIMONY OF EDWIN T. HOLLOWAY, ASSOCIATE ADMINISTRATOR FOR FINANCE, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY CHARLES R. HERTZBERG, DEPUTY ASSOCIATE ADMINISTRATOR FOR FINANCIAL ASSISTANCE, AND LAWRENCE R. ROSENBAUM, DIRECTOR, OFFICE OF PLANNING AND BUDGET

Mr. **Holloway**. Mr. Chairman, if I may, I would like to introduce the people accompanying me here today. Mr. Charles R. Hertzberg is the Deputy Associate Administrator for Financial Assistance and has responsibilities for a number of programs, including the energy loan program, and Mr. Lawrence R. Rosenbaum, the Director of the Office of Planning and Budget.

I am certainly pleased to appear before your subcommittee again, Mr. Chairman, and to provide you with information on the status of the Small Business Administration's energy loan program.

I wish to briefly provide you with an overview of this program, reviewing its activities, summarizing its development, and discussing its future.

I am aware that this issue is of special concern to you, Mr. Chairman, due to your strong interest in promoting small businesses in finding alternative energy sources.

The legislation which you introduced, H.R. 11713, the Small Business Energy Loan Act, became Public Law 95-315 on July 4, 1978, and is the statutory base for the program we will be discussing here today.

Your bill, Mr. Chairman, established a new section 7(l) of the Small Business Act. The 7(l), or energy loan program, makes both direct and guaranteed loans to small businesses. These loans are made to companies that manufacture or market renewable energy equipment or energy conservation equipment. In addition, firms which provide professional engineering or architectural services or have as their objective to conserve energy or apply renewable energy measures would also be eligible.

The proceeds of these loans may be used to purchase land for plant construction, for building, machinery, equipment, furniture, fixtures, facilities, supplies, materials, or working capital. Generally, energy loan funds cannot be used for research and development. However, under special circumstances, up to 30 percent of a loan may be approved for such purposes.

I would like to share with you information concerning the activity which has been generated by this program. When the program was originally enacted in 1978, a total of $75 million was authorized. In January 1979 the program was begun with an appropriation of $5 million for direct loans and $1 million for guaranteed loans. These funds were exhausted by April 1979 and the Office of Management and Budget allowed SBA to reprogram $7 million in direct loan funds and $5 million in guarantee authority.

In testimony given on September 7, 1979, before the Senate Select Committee on Small Business the agency reported that as of August 31, 1979, SBA had made a total of 123 energy loans for $16.2 million. These totals include both the direct and guaranteed 7(l) loans as well as the energy loans made under the 7(a) program. Forty-six percent of these 123 loans went to firms in the manufacturing sector; 22 percent in the construction sector; 11 percent to wholesalers; 10 percent to retailers; 8 percent to service firms; and 3 percent to firms in mining.

An informal telephone survey in the summer of 1979 was conducted with approximately 50 firms who had received a 7(l) direct loan to provide SBA with a preliminary assessment of the program. These firms were located in 25 States. Their loans ranged in size from $10,000 to the statutory ceiling of $350,000; the average loan size was $115,000; the loans typically went to new firms and very young firms that had been in business for less than 3 years.

From this survey it was found that the largest users of the 7(l) program were concentrated in two industries. About 35 percent of the loans were made to firms involved in the solar energy industry as manufacturers, distributors, or installers of solar panels and other solar system components.

An equal share of 7(l) loans were made to firms involved in the manufacturing and retailing of insulation materials including cellulose, thermal windows and shutters, and roofing. The remainder of the loans were dispersed across a wide variety of energy producing and conserving industries, including wood stoves, heat transfer equipment, and general energy management systems.

On March 4, 1980, the agency, testifying before the Senate Select Committee on Small Business, noted that by the end of December 1979, SBA had made 153 loans under the Small Business Energy Loan Act. The fiscal year 1980 program level, as contained in that year's appropriation bill for 7(l) was $15 million in direct funds and $30 million in guarantees. A total of 183 loans were made in 1980 for $25.7 million; 105 loans were direct loans for $14.4 million, and $11.3 million went into 78 guaranteed loans. Cumulatively from the beginning of the program, 73.2 percent of the dollar awards had gone to direct loans, 23.4 percent were guaranteed loans, and 3.6 percent were immediate participation loans by the end of fiscal year 1979.

In November 1980, the agency compiled a report on the small business energy loan program covering the period between January 1979 and May 1980.

During this period, 229 loans were made for $31.4 million. The average size of the loan was $144,000 and the average maturity of these loans was for 9 years. There were 155 direct loans and 74 guaranteed loans.

The individual products that received the most loans were: Solar energy, 70; energy conservation devices, 80; wood or waste conversion, 28; alcohol-gasohol, 11. The remainder of the loans were an assortment dealing with industrial cogeneration, service industries, and miscellaneous products.

It was also determined that of all the businesses and industries participating in this program, 128 were in manufacturing, 37 in wholesaling, and 98 in retailing. Geographically, the heaviest concentrations of these loans were in California, 31; Colorado, 20; Kansas and Minnesota, 12 each, and Florida, 10.

Moving into fiscal years 1981 and 1982 data, in fiscal year 1981 the energy loan appropriation was for $10 million in direct loans and $33 million in guaranteed loans. Actual loan volume declined to 88 loans for $14 million. Forty-four direct loans totaled $6.7 million and 44 guaranteed loans were made at $7.3 million.

Two factors that strongly influenced the number of loans made in fiscal year 1981 are: First, as a result of deferral requests during fiscal year 1981, final determination of that year's budget was delayed until June 1981. Second, the passage of Public Law 97-35 on August 13, 1981, changed the direct interest rates from 9¼ percent to approximately 15 percent. Initially the direct interest rate was 7⅝ percent when the program was started in fiscal year 1979.

It is possible that because of the funding situation applicants became discouraged and did not pursue a 7(l) energy loan.

About $4 million in direct money was made available early in fiscal year 1981. These funds were immediately spent and further funding was not available until June 1981. In order to meet the demand for this program many of these applications were converted to 7(a) loans.

In fiscal year 1982, the program was appropriated $10 million in direct lending and $15 million for guarantees. For the three quarters ending in June 1982, the agency has made 13 loans for $1 million. There have been 8 direct loans made at $700,000 and 5 guaranteed loans at $300,000.

The reduced obligation levels in 1981 and 1982 have undoubtedly been affected by two factors: The increase in interest rates and the reluctance of the small businessman in the present economy to borrow money.

Attached is a chart which shows the type and number of loans, plus dollar awards made for the energy program.

There is no reason to believe that the pattern has changed from the 1979 and 1980 surveys as to the kinds of loans that have been awarded. Each of these surveys found two major uses for 7(l) loans: Solar energy and energy conservation. The remaining energy loans were a variety of energy efficient and conservation methods.

Under section 6 of Public Law 95-315, SBA was to report to the Congress on the actual energy savings resulting from this program, minimize the paperwork burden and regulatory impact on applications, and consult with the Department of Energy and other agencies to compile needed data.

To provide the specific documentation required, excessive reporting, adjustment, and compilation requirements would have been placed on the applicant. Even in the face of this obstacle, SBA did try to devise a system to measure energy savings. The response from applicants was not the type of data from which hard facts could be derived. In meeting with the Department of Energy, SBA found that they could not offer helpful suggestions as to how the agency could meet this reporting requirement.

It was DOE's opinion that it was not possible to estimate either the projected or actual energy savings resulting from energy loans. In our annual report of fiscal year 1980, we noted these factors in being unable to comply with the congressional mandate.

Public Law 97-35 deleted these reporting requirements which were stated in section 10(b) of the act.

I have provided you with the data the SBA has available on the energy loan program from its beginning in January 1979 to June 1982. SBA has tried to accomplish its objectives in this program with available resources.

We support the energy program and firmly believe that this program makes it possible for the small business community to make a direct contribution in solving the Nation's energy problems.

I will be pleased to answer any questions that the members of the subcommittee may have.

[Chart referred to above follows:]

ENERGY LOAN APPROVALS

[SBA's Share]

	Direct		IP		GP		Total		Gross dollars
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	
Fiscal year 1979:									
2d quarter...	26	3,302,700	1	262,500	7	527,040	34	4,092,240	4,238,300
3d quarter...	13	1,078,800	1	71,250	3	219,573	17	1,369,623	1,465,770
4th quarter..	44	6,275,200	1	346,500	12	1,693,632	57	8,315,332	8,698,680
Total........	83	10,656,700	3	680,250	22	2,440,245	108	13,777,195	14,402,750
Fiscal year 1980:									
1st quarter..	26	3,493,200			19	2,051,400	45	5,544,600	5,839,200
2d quarter...	24	3,629,300	1	129,000	18	2,360,250	43	6,118,550	6,472,300
3d quarter...	27	3,663,800			23	3,297,430	50	6,961,230	7,379,500
4th quarter..	26	3,424,200	1	63,750	18	3,553,950	45	7,041,900	7,464,700
Total........	103	14,210,500	2	192,750	78	11,263,030	183	25,666,280	27,155,700
Fiscal year 1981:									
1st quarter..	16	2,770,040	1	200,200	13	2,115,490	30	5,085,730	5,466,540
2d quarter...	4	387,400			15	2,549,700	19	2,937,100	3,220,400
3d quarter...	1	430,000			7	1,114,200	8	1,544,200	1,668,000
4th quarter..	22	2,935,795			9	1,472,880	31	4,408,775	4,622,595
Total........	43	6,523,235	1	200,200	44	7,252,270	88	13,975,805	14,977,535
Fiscal year 1982:									
1st quarter..	1	65,000			2	69,300	3	134,300	142,000
2d quarter...	1	150,000					1	150,000	150,000
3d quarter...	6	476,000			3	201,950	9	677,950	741,000
Total........	8	691,000	0	0	5	271,250	13	962,250	1,033,000
Grand total........	237	32,081,435	6	1,073,200	149	21,226,795	392	54,381,530	57,568,985

Mr. **Bedell**. Thank you very much, Mr. Holloway.

Do either of the other people with you have statements?

Mr. **Holloway**. No, sir.

Mr. **Bedell**. Mr. Hiler, do you want me to proceed first?

Mr. **Hiler**. Sure.

Mr. **Bedell**. Mr. Holloway, two problems face the committee, it seems to me.

First of all, in the past this money has been inadequate actually to take care of the requirements and so on, and at this time you have loaned out only $1 million of the total amount available and at least we keep getting reports from people who say that they have gone to your offices and your people tell them there isn't any money available.

My question to you is, what would you do if you were us and what could you do to see that—I think you have a responsibility to carry out the mandate of the Congress.

I don't think you have responsibility to make bad loans. We don't want you to do that but if you were sitting where we are and keep getting these reports from people who had been to your field offices, I think you would be disturbed if you were us, especially in view of what seems to be a lack of enthusiasm somewhere in the administration for this program.

Mr. HOLLOWAY. I appreciate your concern, Mr. Chairman, and I can tell you we share the frustration of bad information being given out by an SBA field office in the matter of the availability of funding.

We have, since the first of the year, in February and twice in May, put out written communications to our field which we will be glad to submit for the record, stressing the availability of this direct funding in all of our programs, including the energy loan program, and suggesting that management efforts be undertaken to make sure correct information is given out.

In addition, I have personally, and I know our administrator has stressed it in regional administrator meetings when they have personally been into Washington, as well as at our district director meetings.

In short, I can tell you that we tear our hair out over this when efforts are made to make sure that correct information is given and yet we do still get reports, and undoubtedly some of them must be correct that that information is given out.

It is an ongoing problem that I assure you we will continue to address and do what we can about it, Mr. Chairman.

Mr. BEDELL. Do you have copies there of the things that you are going to submit?

Mr. HOLLOWAY. Yes, sir.

Mr. BEDELL. Could the chairman see those here?

[See app. D.]

Mr. BEDELL. Mr. Hiler, did you have any questions?

The chairman would like to go over this.

Mr. HILER. Yes.

I just have one or two questions. As you probably know, Mr. Holloway, there really are quite a few concerns. There is an inability of information to get from the Washington office to the field offices or at least an inability to get the information there accurately or timely or in a way that the field office is able to understand.

Now, you have said that you have sent out two communications and that is what the chairman is reading about, telling them that the money is available and yet, Mr. Chairman, I believe we have gotten reports—I know Chairman Mitchell has brought it up several times—that calls were made to field offices and the field offices say, well, we don't have any money available, and so you say you are taking steps to try to see that that is not the case any longer?

Mr. HOLLOWAY. Yes, sir. We are definitely taking those steps and stressing at all management levels, that is the Regional Administrator level and the District Director level, in addition to the written communications.

In addition, Mr. Hertzberg and I have regular telephonic communication with our two key finance level people in the field offices and it is a problem.

I must say that having talked to a number of bankers who have, for example, a pretty good branch system, they experienced the same difficulties that we do in this connection of the 2 percent that never seem to get the word, but it is an ongoing problem for us.

And I am happy to do all I can by the way of written and oral communications to attempt to address what is a real problem.

Mr. **Hiler**. How many field offices do you have?

Mr. **Holloway**. We have about 100, counting districts, branches, and regions.

Mr. **Hiler**. Well, I would encourage you to make sure that information does get out.

I agree with what you have said in your statement that given the current business climate and the level of interest rates that business may not be inclined to want to proceed with the loan at this time or guarantee.

But certainly if they are so inclined with authorization and appropriation available from SBA, I would hope that you would do everything to insure that those funds are made available as Congress has dictated.

I yield back, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Hiler.

Mr. Holloway, I have a little trouble with these memos. Technically you are correct as to what they say, but it is sort of buried with everything else as far as I am concerned.

It would seem to me completely proper for you to send a memo to all 100 of your offices. I think that memo should clearly state that it is not the intent of the memo to encourage offices to make bad loans but that the Small Business Subcommittee has demanded that you notify all of your offices that they are to properly advise applicants that money is available at this time for both direct and guaranteed loans under the small business energy loan program.

It would seem to me that that is not too much to request.

Mr. **Holloway**. It is not too much to request, Mr. Chairman, and I assure you that I will undertake to again do this and send you a copy.

Mr. **Bedell**. I presume you would agree with that, Mr. Hiler, that since we are getting these reports back——

Mr. **Holloway**. I will take care of that, Mr. Chairman. You will get a copy.

[See app. E.]

Mr. **Bedell**. There has always been some problem, I think, with these loans in that the legislation clearly indicates that the SBA—because of the energy problems that we have—is authorized to make loans under this program, that they might not otherwise feel were appropriate.

Is that information available as well or not?

Mr. **Holloway**. Yes, that information is in our Standard Operating Procedures. That is the kind of yellow-backed book that every loan officer works out of out there and the fact that the somewhat more relaxed criteria is made available in our formal instructions to the loan officers.

There is the problem that at some point, an advancement of funds either is a loan or it isn't, and even though we use relaxed criteria we have to keep in mind that we are not wanting to intentionally lead someone into a situation where they know and we know that they cannot repay and, hence, we get involved in liquidating the loan and taking their property away from them by legal action.

So we like to see, even when ample collateral is there, that a loan is for a specific purpose, that that purpose can be achieved, and that an income stream from carrying out that activity will enable the repayment of the loan and that it will not be necessary to move against anyone's collateral.

So, even with relaxed criteria, the Congress still calls these loans and when the General Accounting Office goes out there and looks at these loan folders, they expect to be able to find that reasonable assurance of repayment.

Mr. **Bedell**. I agree with all that and I think I understand.

I would suggest that you see whether or not in this memo that you send to those offices you could explain the fact that Congress has mandated that special consideration is to be given to such loans.

I would feel that it should clearly say you are not to make bad loans but that the legislation does specifically specify that the criteria are to recognize the urgency of our energy problems.

I don't know just how you would word it. Would it be possible for us to get a copy of that before you send it out?

Mr. **Holloway**. Yes, sir; it absolutely is.

Mr. **Bedell**. I think it would be nice if it would go to all the members of the committee, if you would have no objection to that.

Mr. **Holloway**. If we may, we will furnish it to Marc—Marc Rosenberg, subcommittee staff director—and kind of get a little feedback from you. If there is anything wrong with our wording we will be glad to accommodate that.

Mr. **Bedell**. We are going to have to go and vote. You do have a report that you mentioned on page 6 that you made in January 1979 and May 1980, at page 6 of your testimony here.

Can we get a copy of that report?

Mr. **Holloway**. Yes, sir; we can. As a matter of fact, I will provide this to you at the conclusion of the hearing.

[See app. F.]

Mr. **Bedell**. Do you keep a record of the people that apply for loans in your field offices?

Mr. **Holloway**. Mr. Chairman, please allow Mr. Hertzberg to address the recordkeeping on that.

Mr. **Hertzberg**. Mr. Chairman, a record is kept of applicants that apply in each district office.

Mr. **Bedell**. Is that a formal application?

Mr. **Hertzberg**. That would include those that come in and discuss a loan proposal. Certainly we have records of all applications that are filed but our difficulty is how long that is kept and how it is reported.

Up to very recently we have been unable to retain in any kind of reportable fashion anything other than those that are actually approved.

Mr. **Bedell**. I guess what my question comes to is, I am wondering if you have records from your field offices of the people that have been in to apply for small business energy loans and, if you do have such records, I am wondering if you could get a copy to cross check with the letters we are getting from people who are saying: "We have gone in to apply and they have told us they don't have any money for this program."

Mr. **Hertzberg**. We could do this in one way that I can see, Mr. Chairman. If we could obtain a list of those people and the office to which they went, we could pull the inquiry records of that individual in that office.

Mr. **Bedell**. I think I will have my staff try and check with you if we could on this. I am not sure what there is.

There is a vote on the floor of the House. If I run fast enough I think I can still get over there. I won't hold you any longer. I appreciate your testimony here.

We would hope that this program would receive the attention which I think Congress has mandated.

Mr. **Holloway**. Thank you, Mr. Chairman. And we will work with you in a cooperative way on the matters that you have brought out in these hearings today.

Mr. **Bedell**. Thank you.

The committee will be in recess for about 10 minutes.

[A brief recess was taken.]

Mr. **Bedell**. The subcommittee will again come to order.

Our next witness is Catherine Lyons, executive vice president of SAFE-BIDCO, Fund for Energy, Sacramento, Calif.

She was the 1981 SBA banker advocate of the year and we are very honored to have you with us here, Catherine.

TESTIMONY OF CATHERINE LYONS, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, SAFE-BIDCO, FUND FOR ENERGY, SACRAMENTO, CALIF.

Ms. **Lyons**. Thank you, Mr. Chairman.

Mr. **Bedell**. You may either summarize your statement or read it in full. Either way it will be entered in the record.

Ms. **Lyons**. I would like to summarize the statement but I would like to submit it.

Mr. **Bedell**. Excuse me.

Before we go forward, we were interrupted by a vote before and Mr. Holloway of the SBA will be submitting a written statement in regard to his comments on the staff report that we had prepared here on this program.

[See app. G.]

Mr. **Bedell**. You may proceed.

Ms. **Lyons**. I would like to request that the written testimony that we have provided be entered into the official record.

Just to give you a little background, SAFE-BIDCO, which stands for the State Assistance Fund for Energy, California Business and Industrial Development, Inc., was created by California legislation in 1981 with a mandate similar to that SBA had in assisting small businesses in alternative energy fields.

SAFE-BIDCO has an operating line of credit with the State of California for $2½ million. We are not a subsidy loan program. The loans that we make are market-rate loans and should be good credit decisions.

Since inception, SAFE-BIDCO realized that utilizing the SBA energy program was going to be critical to the continued success of our program. For two reasons: First, certainly to insure the loans that we made but, second, because of the leveraging of the funds. With $2½ million available in loans to the State we would run out of funds in a very short period of time. By being able to use the SBA program and sell the Government guaranteed portions off in a secondary market we are able to make $25 million in loans to small businesses in this field in the State of California.

To my knowledge, this is the only lending institution specializing in the energy field in the country of this type.

I have been a banker for 13 years and an SBA specialist for the last 4 years. Having made numerous SBA loans in the last few years I went to work for SAFE-BIDCO in February. SAFE-BIDCO was certified by the Small Business Administration in April. Since that time we have heard numerous conflicting reports about the 7(l) program.

Having worked with the district offices and the regional offices in the past, we assumed that we had a very good working knowledge of the existing programs that were available.

We were told that there was no longer a 7(l) program and that there was some sort of program but that there were no funds available in the program.

So we proceeded to take applications from loan applicants and try to qualify them through the standard 7(a) program.

Our legislation states that we must obtain SBA or other Government guarantees on our loan.

Since hearing about the hearings we have done some research into the SBA program and have just recently in the last 2 days found out that the 7(l) program was changed in August of 1981 and is now referred to as the 7(a)(12). That there are funds available in the 7(a)(12) program and asked how many loans have been made available in this fiscal year through the region that we work with which is region 9, we were told that six loans had been made this fiscal year under the 7(a)(12) program, all of them being direct loans.

Now, in that time we had also processed, SAFE-BIDCO, two energy loans to the district office apparently which were not classified under the 7(a)(12) program but under the standard 7(a) program.

The conflicting reports disturb us. We would like very much to be able to use the 7(l) or the 7(a)(12) program. We have had numerous applicants that we have had to turn away because we felt that they would not qualify for SBA guaranteed loans. We feel SBA has given us this information in good faith, in no way do we feel that the district office or the regional office is discriminating against the energy loan programs.

We feel that there is strictly a lack of communication and a lack of understanding in the operations of the program.

With reference to the 7(a)(12), we would like to see the guarantee program expanded rather than the direct loan program. We realize we are a special lending institution in this area, but feel with education of other lending institutions in this field that the guaranteed program can be highly effective.

SBA's new mandates that have been passed down to them are there to continue to make credit-worthy loans and have thus become rather conservative, I feel, in the last year trying to support the mandate of the administration to do just that.

I feel a lot of the loans could be processed but the main problem comes in the area of collateral and equity in the companies.

We have been able to process two startup companies through SAFE-BIDCO, one of which we had to appeal to SBA because it was turned down originally for lack of collateral and equity.

We were able to overcome those and they were approved for guarantee by the Small Business Administration but we feel there are some restrictions in this area and there are a lot of applicants in the State of California who could obtain financing through SAFE-BIDCO with SBA guarantees if some of the restrictions or the conservatism in to this program is modified.

I have nothing further to say. If you have any questions I would be happy to answer them.

[Ms. Lyons prepared statement and attachment follows:]

Prepared Statement of Catherine Lyons, Vice President and Chief Financial Officer of SAFE-BIDCO, Fund for Energy, Sacramento, Calif.

I am Catherine Lyons, Vice President and Chief Financial Officer of SAFE-BIDCO, which is an acronym for State Assistance Fund for Energy, California Business and Industrial Development Corporation, Sacramento, California.

SAFE-BIDCO was created by act of the California State Legislature and given much the same mandate as Congress gave SBA in creating the 7(l) program in 1978: make loans to small businesses in the alternative energy and conservation fields where conventional lending sources may not. Unlike the 7(l) program of the past, SAFE-BIDCO is not a government-subsidy program. It makes market rate loans, and it uses SBA loan guarantees under the 7a program. These guarantees are very important to us: not only to insure us against losses but they permit us to leverage our lending capital by a factor of 9 to 1. The State of California initially loaned us $2.5 million for making loans to small businesses. With the SBA guarantee, we sell the guaranteed portion of our loan to investors and end up with a total of around $25 million for making loans to small energy businesses who can't get loans from other lenders.

From the beginning of planning this new financial institution, it was assumed that the SBA 7(l) energy loan program would be vitally important to our successful operation. If we make loans to businesses who can't borrow money from banks, then we need some sort of special consideration in SBA evaluation of our loans.

As it turns out, our first two loans were approved by SBA under its normal 7a criteria.

Still, our experience to date indicates the need for special terms for some of our more promising clients. We, therefore, want to thank you for these hearings, and for the subcommittee's continuing interest in this program.

It was only in the course of doing research for this testimony that SAFE-BIDCO was able to definitely determine that the special energy loan program still existed—although under a different legislative designation.

SAFE-BIDCO has established an excellent working relationship with SBA district offices in California. But the fact is that we were consistently advised by SBA field officers that the program had been abolished by Congress in August, 1981.

We think we were told this in good faith by our SBA contacts. Somehow confusion over the status of the program has arisen. We hope these hearings will finally resolve that—so the existing program will be available to interested lenders such as SAFE-BIDCO—and so that it can be expanded and improved.

I have reviewed the report "An Implementation Study of the SBA Energy Loan Program" prepared by the Committee on Small Business, House of Representatives. The report on the whole appears to reflect favorable opinion concerning the program. It does not, however, make a delineation between direct loans and guaranteed loans. In my experience as a banker and advocate of the SBA programs, the majority of the problems outlined in the report probably were more likely to occur through the direct loan program rather than the guaranteed program. I believe the direction of this program should be handled by the banking or lending facilities who are prepared and experienced in making reliable credit decisions. The delinquency and default rates of direct loans versus guaranteed loans is 4:1. In my opinion I do not feel that the required SBA paperwork and forms are excessive or unclear. Nor do I feel the so called restrictions on the loan proceeds to be as inflexible as described. In response to complaints in the report of excessively long application periods in the loan program, again assumed to be higher on direct loans than guaranteed loans, we have heard similar complaints and it has cost SAFE-BIDCO some applicants. In fact these long lead times are not a problem with the 7a loan guarantee program. The SBA Fresno district office has been able to respond on an average of 7 days. The cause for the problem comes from lack of understanding and lack of communication at all levels.

It is important that a program such as the 7a XII be fully communicated by the Agency to the District and Regional offices to avoid the conflict of misinformation. If the program does exist, then let's use it and expand it. Here are some suggestions as to ways to improve the program:

1. Immediately advise all SBA field offices and 7a lenders of the existence and criteria for the program. Our review of published guidelines on the program indicated that the nature of the special consideration which would be given to applicants under the 7(l) program was never very clear.

2. Emphasize loan guarantees over direct loans.

a. Even if special consideration is given under this program, good credit judgment must be applied. SBA itself has recognized that bankers and other lenders are in a better position to do this than they are. This is especially important now that budget cuts have reduced SBA field staff, while the economy has increased loan defaults and liquidations. Our observation is that SBA is in no position to expand its direct energy loan program.

3. Give further incentives to lenders to participate in this program.

a. Reduce collateral requirements to about 50% of the value of the loan.

b. Subordinate SBA's 90 percent share of the collateral to the lender's 10 percent.

c. Reduce equity cash requirements for the applicants to less than 25%, when working capital seems adequate for such a reduction.

Although in operation less than a year, SAFE-BIDCO can identify over $1 million in loans that we would like to have made to businesses in which we had confidence. We could not because they did not meet 7a standards.

4. Eliminate regional allocation of loan guarantee funds. If one state, such as California, is aggressive in the program, then it should not be limited to an arbitrary proportion share of the appropriation.

5. Don't channel all energy loans into the special energy program. If they can qualify under the normal standards, they should.

The danger is that no energy loans will be made when the limited energy loan appropriation is fully subscribed.

6. Implement the Solar and Energy Conservation Bank. Many of our clients would be helped most by the availability of good contract financing for their customers. Although SAFE-BIDCO can do this type of financing, we feel the 7a or 7(l) programs are not the ideal vehicles for this. Lower-cost money is needed to improve the economics of these investments at this early stage of their development. More important, the processing required for SBA loans is excessive for residential consumers or even for small businesses as consumers of alternative energy or conservation products and services. The business person who is motivated to go through the SBA loan process for a business loan that is central to his operations, is not similarly motivated for his investment in a solar water heater or comprehensive conservation program.

In closing, I'd like to make what I consider the most important recommendation of all.

Probably what would help energy businesses more than any tinkering with the current rediscovered 7(l) program is to restore the momentum which has been lost in the whole SBA loan guarantee program.

For many years I was an SBA loan specialist at River City Bank in Sacramento. My bank and others demonstrated to the lending community that participation in the SBA loan guarantee program was good, profitable business. At the same time, non-bank lenders such as the California Business and Industrial Development Corporation were beginning to be active in the program.

One could see volumes of SBA-guaranteed loans increasing to the point where guarantee authority would be fully used. Many new lenders were entering the program, increasing the availability of funds to small business, even increasing competition for their loans.

But this momentum has been lost as the current Administration announced its plans to make sizeable cuts in the program every year. As SBA manpower for processing loans is cut down, increased processing time is inevitable.

What is needed is a clear signal to SBA that a vital, expanding 7a program is what is expected. There is no better investment for the government than one which leverages 10 private sector dollars for every one the government would spend—even if their loan loss rate is as high as 10%, which it need not be.

S.A.F.E.
B.I.D.C.O.
Fund for Energy

STATE
ASSISTANCE FUND
FOR ENERGY
CALIFORNIA
BUSINESS & INDUSTRIAL
DEVELOPMENT
CORPORATION

SAFE-BIDCO is the State Assistance *Fund for Energy*, California Business and Industrial Development Corporation. It was established by the California State Legislature in 1981 to provide financial assistance to small businesses in alternative energy. It is licensed and regulated by the California State Banking Department.

Senate Bill 16 (authored by Senator David Roberti) mandates the corporation to assist qualified businesses which provide or purchase alternative energy and energy conservation products, systems, and services.

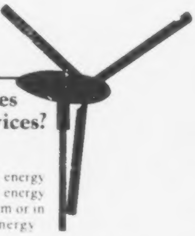
Capitalized by a line of credit from the State, SAFE-BIDCO is authorized to provide several types of financial assistance to qualified small businesses. Initially, the corporation will stress loans which can qualify for guarantee by the U.S. Small Business Administration or other federal or state agencies.

These guarantees will make it possible for SAFE-BIDCO to increase its lending capital to more than $20 million by selling the guaranteed portion of its loans to private investors.

Although SAFE-BIDCO is a non-profit corporation which is, in effect, wholly owned by the State of California, it is not a state agency in the usual sense. It must be self-supporting. Its lending capital must be repaid to the State. Its employees are not civil servants. Its Board of Directors — which is appointed jointly by the Governor, Senate Rules Committee, and Speaker of the Assembly — is independent and represents both state government and the private sector.

SAFE-BIDCO, like other CAL BIDCOs and private lending institutions, will operate in the market place to make sound investments in new or expanding businesses. Unlike others in this field, SAFE-BIDCO will specialize in assisting those firms involved in new sources of energy and conservation.

Who Qualifies?



Which technologies and services?

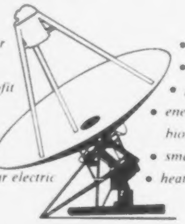
SAFE-BIDCO can make loans to small businesses in one of the alternative energy fields, or to small businesses who want to invest in conservation or alternative energy systems.

The basic SAFE-BIDCO legislation defines alternative energy as follows:

". . . any device or combination of devices which conserves or produces heat, process heat, space heating, water heating, steam, space cooling, refrigeration, mechanical energy, electricity, or energy in any form convertible to these uses, which does not expend or use conventional energy fuels, except when such conventional energy fuels are used as a back up energy system or in conjunction with an alternative energy system."

In other words, if your product or service saves or substitutes for conventional energy sources such as oil, natural gas, or electricity, it meets one basic qualification for SAFE-BIDCO financial assistance.

Included, among others, are the following technologies or services:



- *conservation materials, devices or services*
- *energy management and retrofit services*
- *active solar heating and cooling*
- *passive solar heating and cooling*
- *solar electric*
- *co-generation*
- *wind energy conversion*
- *geothermal energy*
- *energy from waste, crops, or other biomass*
- *small hydroelectric*
- *heat recovery*

If your product or service does not fall into any one of these categories, don't disqualify yourself. If you think you should qualify, ask us for a determination.

How "small"?

SAFE-BIDCO uses the same size criteria as the U.S. Small Business Administration. SBA defines a small business as one that is independently owned and operated, not dominant in its field, and meets employment or sales standards in SBA regulations. These vary by type of business. For a specific determination for your business, contact SAFE-BIDCO or SBA.

Is that all?

Meeting the above qualifications is only a start. In evaluating requests for financial assistance SAFE-BIDCO will be looking at the following factors.

The principals of the business:

They must have good standing in their industries and communities and good management track records in their fields.

Capitalization:

There must be reasonable equity investment in the business or project.

Cash flow:

There must be evidence of an ability to repay the loan from the earnings of the business.

Collateral:

Enough must be offered to provide security for the loan.

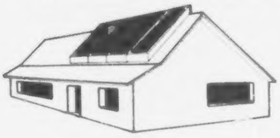
What can the money be used for?

SAFE-BIDCO will make loans for working capital, purchase of equipment or real estate needed for business, new construction needed for business, leasehold improvements, inventory increases, and other legitimate business expenses.

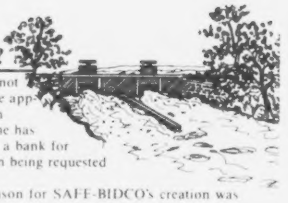
Will SAFE-BIDCO finance new businesses?

Yes, but the corporation recognizes that businesses without a history are risky investments. You will need more than a good idea to obtain SAFE-BIDCO financing. Among other things, the following will help: solid experience in the field you propose to enter as an entrepreneur; adequate equity investment in the business; reliable cash flow from an established, related business; adequate collateral and personal guarantees.

Generally, SAFE-BIDCO would like to see at least one year of successful business operation by the applicant.



May I come to SAFE-BIDCO first?



SAFE-BIDCO cannot loan money unless the applicant presents written evidence that he or she has been turned down by a bank for roughly the same loan being requested of SAFE-BIDCO.

A fundamental reason for SAFE-BIDCO's creation was that small businesses in the alternative energy fields often cannot get financing from commercial lenders.

What are the interest rates?

SAFE-BIDCO provides market rate, not subsidized loans. The rate will be slightly above prime and will vary according to changes in prime. Borrowers will, therefore, get some benefit from declining interest rates, as well as risk of rising interest rates.

This policy insures that SAFE-BIDCO loans will have a ready market among private investors. Sale of the guaranteed portion of the corporation's loans maximizes lending capital available to potential borrowers.

What are the terms?

SAFE-BIDCO will make loans of five to twenty years, depending upon the needs of the borrower and proposed uses. The twenty year term is available only for business-related real estate purchase.

Loans may be repaid at any time without a prepayment penalty.

Payments generally are on a monthly basis. The corporation will consider variations in the amortization schedule if needed by individual companies for particular circumstances.

How much can I borrow?

SAFE-BIDCO will make loans from $10,000 to $550,000. Of course, one consideration in the size of the loan will be the debt servicing capacity of the firm as well as the justification for the requested amounts. Smaller loans will be considered if justified, and larger loans will be considered where suitable government guarantees are available.

There is a special "users" loan program for small businesses seeking financing for improvements that will reduce energy costs in their operations. If available in your area, loans as low as $2500 are made in conjunction with the energy management incentives programs of electric or gas utilities in the state. Write or phone SAFE-BIDCO for a special brochure and application form for this program.

How do I apply?

The application procedure consists of three steps, as follows.

Step 1 — EVALUATION. The applicant starts the process by filling out a simple evaluation form, which is provided by the corporation upon request. Within three working days after the form and supporting documents are received, SAFE-BIDCO will let you know if the information you provided is complete, and whether your business is the type which falls within the requirements of our legislation.

This is only a preliminary step and does not assure an applicant financing.

Step 2 — APPLICATION. If it seems likely your loan meets SAFE-BIDCO criteria, a full loan application package is then submitted to the applicant for preparation. The "loan package" is more complicated and time-consuming. SAFE-BIDCO wants to spare businesses this expense unless they have a good chance for approval.

Step 3 — SUBMISSION of the completed loan package to the appropriate federal or state agency in order to obtain the loan guarantee.

How long before I get the money?

A total of 7 to 10 weeks might be needed before money can be disbursed to a successful applicant. SAFE-BIDCO will be working to cut this time down as we gain experience in dealing with applicants and loan guaranteeing agencies. Of the total time, about half is needed for SAFE-BIDCO's work and the rest for processing by SBA or other guarantee authority.

The corporation recognizes that its clients can suffer serious loss from delays in funding and will make every effort to expedite the process. However, delays are often related to the failure of an applicant to quickly provide accurate and complete information for the loan package.

What are the fees?

The corporation charges no fee for evaluating or processing your loan request. However, if the loan is guaranteed by SBA, there is a fee equivalent to 1% of the 90% SBA guarantee.

The corporation has the capability to give limited technical assistance to its clients as well as limited assistance in preparation of the actual loan package. If further assistance is required in either of these two areas, SAFE-BIDCO can direct you to qualified persons for these services.

The corporation, however, recommends that applicants prepare their own application packages.

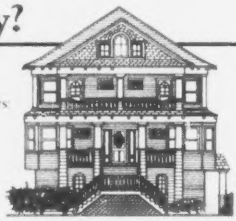
SAFE-BIDCO is a non-depository financial institution and does not require any compensating deposits from its borrowers.

Board of Directors and Officers

Howard Kraye	Chairman
John Shahabian	Vice-Chairman
Mark Braly	President, Chief Executive Officer
Peter Barnes	President, The Solar Center
Charles Blackledge	Retired, U. S. Small Business Administration
Ken Cory	State Controller
Jerome Dodson	Director, Continental Savings and Loan, San Francisco
Donald Lahr, Sr.	Sheet Metal Workers International Association
Lynn Schenk	Secretary, California Business, Transportation and Housing Agency
James Walker	Commissioner, California Energy Commission
Catherine Lyons	Vice-President, Chief Financial Officer

Where do I apply?

Address inquiries to
the corporation's
state-wide headquarters:



SAFE-BIDCO, Fund For Energy
2021 N Street, Suite C
Sacramento, CA 95814
Phone (916) 442-3321

If you should have any questions, please feel free to write or call. Although SAFE-BIDCO has limited its staff in order to reduce operations overhead to a minimum, our aim is to be in touch with all potential borrowers and to be of service to others in the alternative energy and conservation fields.

NEWS

Business

The Sacramento Bee Sunday, June 27, 1982

New State Agency Helps Hatch Small Alternative-Energy Firms

By Claudia Buck
Bee Staff Writer

Jeff Reiss and his partners in Sierra Greenhouse Inc. were snubbed by a dozen banks in their quest for financing.

Nobody would touch a small energy company that planned to market solar greenhouse kits. "It was the classic revolving-door syndrome," recalls Reiss, who said every financial institution wanted lots of collateral. All the entrepreneurs had was $50,000 in capital.

This week, however, Sierra Greenhouse will get its loan — for $120,000 — from a new state corporation that helps small businesses involved in alternative energy. The lender is SAFE-BIDCO, a tidy acronym for a long-winded state entity: the State Assistance Fund for Energy — Business and Industrial Development Corporation.

It's a first for both parties: SAFE-BIDCO's first loan and Sierra Greenhouse's first foray into solar greenhouse manufacturing on a large scale.

A second SAFE-BIDCO loan for $80,000 to a solar architecture firm also has been was approved.

The non-profit state corporation, established in 1981 under a bill by state Senate President Pro Tem David Roberti, D-Hollywood, was launched with a $2.5 million kitty for loans to small, alternative-energy companies.

Although $1 million was axed in the recent round of state budget cuts, SAFE-BIDCO expects to leverage as much as $25 million by selling the guaranteed portion on the secondary loan market.

Mark Braly, president of SAFE-BIDCO, said Sierra Greenhouse was exactly the type of company his agency was seeking. It was creditworthy and had a product that seemed promising. "We think the latest trend in architecture that's going to stick is greenhouses," commented Braly. "None of the people doing pre-assembled kits are in California, except for some glaziers (glass companies). To be competitive, (Sierra Greenhouse) needed a factory setup."

Since SAFE-BIDCO was organized in January, Braly said some 3,000 firms have been alerted that the loan fund was available. But the first 30 small businesses that applied were rejected.

"Most were too shaky or weren't profitable or had no collateral for the debt or maybe, in our judgement, they shouldn't be seeking to expand at this time," said Braly. Or SAFE-BIDCO's review board simply didn't have confidence in the firm's management.

Braly said that because the loans are partially guaranteed by the federal Small Business Administration and thus must meet SBA criteria, it's tough to find creditworthy customers for the loans. Especially in the current economic slump. According to Braly, the high rate of bankruptcies is "worse with companies in this field (alternative energy)."

The types of alternative energy activities that qualify include solar water heating, space heating and/or cooling, steam generation, windmills, small hydroelectric systems and alcohol fuels.

The interest rate on the Sierra Greenhouse loan is based on prime plus two percentage points and must be paid back in seven years.

Reiss said he and his two partners — Lowell McMurrough and Gene Foley — will use the $120,000 to purchase extruded aluminum from Modesto and glazing from Redding that will be packaged in kit form. He says the company will be the first in California to manufacture greenhouse kits and provide direct servicing.

Reiss expects the company to sell 150 of the bronze-anodized kits, priced at $2,600 for a standard 12-by-8-foot model, during the first year.

Says Reiss: "We couldn't have done it without SAFE-BIDCO. They were the only agency willing to listen. They saw we had a good idea and helped us."

Mr. **Bedell**. We appreciate very much your testimony.

Mr. Molinari, did you have any questions?

Mr. **Molinari**. I have been looking through your testimony and I think it is rather fascinating what you have been able to do here. I just have a couple of questions.

Why was it necessary for the State of California to advance this $2½ million?

Ms. **Lyons**. The State of California didn't advance $2½ million. They appropriated $2½ million in a line of credit which we borrow as a loan to us.

Mr. **Molinari**. Yes. But was this not available from banking sources? That is what I am trying to get to.

Ms. **Lyons**. Are the loans not available through banking sources?

Mr. **Molinari**. You started off with $2½ million which was loaned to you by the State of California.

Ms. **Lyons**. Correct.

Mr. **Molinari**. And you followed that by selling the SBA guaranteed portions of the loans.

I am now on this committee and that is why I am asking the question.

Would not the conventional lending sources make the same monies available provided the record of payback is good?

Ms. **Lyons**. No, I don't think so. And having been a banker myself, bankers refer to several different sources to gather their information. One of them, we refer to the Robert Morrison Associates which gives you information on companies in this industry. It gives you ratios, statistics on companies that have been in operation in this industry. Well, there is no such information available in the energy, technology fields. There is no information available on solar energy, or renewable energy, or biomass, or wind forms. There is nothing for a banker to refer to.

Therefore, you are hung out there without any data or historic information on which to base your decision. So they are very reluctant to approach a new industry.

So the State of California felt it necessary to establish a corporation such as SAFE-BIDCO which is private and nonprofit, by the way, to be able to assist those companies in obtaining capital.

Mr. **Molinari**. What is the failure ratio?

Ms. **Lyons**. We are only 4 months old actually so we don't have one. We are not seasoned yet.

Mr. **Molinari**. I see.

Mr. **Bedell**. Would the gentleman yield?

Mr. **Molinari**. I would be glad to.

Mr. **Bedell**. Do I understand correctly that in our guaranteed loan programs the Federal Government guarantees 90 percent of the loan and by the State putting up this 10 percent then you have a complete loan guarantee?

Ms. **Lyons**. Oh, no, not at all. We are a nonbank lending institution. We handle our loans exactly as the bank would. We disburse the full 100 percent of the loan.

The Small Business Administration only guarantees, and it is not always 90 percent. It is between 70 and 90 percent. They guarantee that loan. We are at risk for 10 percent.

Mr. **Bedell**. Do you turn around then and sell it off?

Ms. **Lyons**. We turn around and sell off the 90 percent portion to investors.

Mr. **Bedell**. OK.

Mr. **Molinari**. Can you give us a breakdown in types of loans that are being made or is there a breakdown available?

Ms. **Lyons**. We have only made two so far. The first one was a startup loan to a manufacturer of solar greenhouses, Sierra Greenhouse. The second one was to a solar environmental architect. We are having a difficult time qualifying some small businesses in this field.

Mr. **Molinari**. So in effect this $2½ million will grow to $25 million?

Ms. **Lyons**. It can.

Mr. **Molinari**. It can but it has not yet?

Ms. **Lyons**. No, not yet. We anticipate that if we do our jobs right we hope so.

Mr. **Molinari**. And this is something that is new?

Ms. **Lyons**. It is brandnew.

Mr. **Molinari**. Nothing else like it in the country?

Ms. **Lyons**. Not that I am aware of.

Mr. **Molinari**. I am going to be watching with great interest.

Ms. **Lyons**. All right. Thank you.

Mr. **Bedell**. You had some problem getting certified by the SBA. Is that all settled now so that you are properly certified so you can make those loans?

Ms. **Lyons**. Oh, yes. I think that just stemmed from the change in administrators.

Mr. **Bedell**. You said we should expand the guarantee program. The fact of the matter is we have $15 million in it of which less than $1 million has been spent, so I don't know if there is much need for us to expand things until we find it being used.

Ms. **Lyons**. We were not aware of that until Tuesday that there were those funds available.

Mr. **Bedell**. Was it ever indicated to you that funds were not available?

Ms. **Lyons**. Oh, from the inception of our program. We didn't even know until Tuesday that there were funds available.

Mr. **Bedell**. I understand you didn't know it but were you ever advised that they were not available?

Ms. **Lyons**. Yes.

Mr. **Bedell**. You were?

Ms. **Lyons**. Yes.

Mr. **Bedell**. We should have kept Mr. Holloway here. We think this is one of the problems.

Ms. **Lyons**. We have been advised repeatedly that there are no funds available.

Mr. **Bedell**. Do we have letters to that extent from you?

Ms. **Lyons**. No.

Mr. **Bedell**. We have your testimony but it would be quite beneficial if you would drop us a letter. That is all you need to say, that you have been advised repeatedly by your SBA office that funds are not available for the energy loan program.

It would be very beneficial. We can send them on over and see what we can do. I think maybe we have made a mistake by having this hearing today instead of having it 3 or 4 months ago but we all make mistakes.

Ms. LYONS. We will do that.

Mr. BEDELL. You say you have been in this for 13 years?

Ms. LYONS. I have been a banker for 13 years.

Mr. BEDELL. I started my business when I was 13. You must have beaten me at it.

Mr. MOLINARI. I have one further question, Mr. Chairman, if you would yield.

Mr. BEDELL. Surely.

Mr. MOLINARI. Getting back to that important area of making a determination as to what works. You explained that technology is a problem from a banking standpoint. How were you able to make that judgment when sophisticated banks were not? Where do you get that information?

Ms. LYONS. In our legislation it clearly states that a report must be prepared by the applicant available for review by the California Energy Commission.

The California Energy Commission is one member that sits on our Credit Review Committee. The president of the corporation of SAFE-BIDCO has energy background having worked for the mayor's office in Los Angeles for 6 years in the energy field.

Then I come in with a credit background and then the Energy Commission comes in with the technical review.

So we have the source of the Energy Commission which is broken down into categories of solar, wind, biomass, and numerous areas. So they provide the technical information.

Mr. MOLINARI. Is there much of a demand in your area for cogeneration?

Ms. LYONS. I would say at this point only about 2 percent of our applicants.

Mr. MOLINARI. I have no further questions. Thank you very much.

Mr. BEDELL. Are you in a position at this time to expand the number of loans you are making now that you know money is available?

Ms. LYONS. Oh, absolutely.

Mr. BEDELL. I would hope you would move fairly quickly because we operate on a fiscal year, as you well know.

Ms. LYONS. Yes.

Mr. BEDELL. So we have spent $1 million out of $25 million in some 9 months.

Ms. LYONS. If we can get them to classify them as 7(l) loans then we can bring you some statistics.

Mr. BEDELL. If you have problems you should check with our committee staff.

Ms. LYONS. I will do that.

Mr. BEDELL. Mr. Molinari, one of the reasons for this program was that most lending institutions tend to be very reluctant to make loans to industries with which they have not had previous experience.

So this legislation specifically mandates that the requirements will be somewhat less stringent on these particular loans than they are on the regular small business loans just because of the issue you are raising. And if I understand it correctly, this organization that she heads is really trying to study more deeply into what the opportunities may be in these areas, whereas, the normal bank is involved in so many things that there is some indication of a tendency to just pass it up.

Mr. MOLINARI. Is it because they don't know the industries or because they don't know the technology?

Ms. LYONS. Both.

Mr. BEDELL. I think it is both and because they are new and do not have an established track record.

Ms. LYONS. That is correct.

Mr. BEDELL. We thank you very much for your testimony and we hope that things will go better for you now in the balance of the year.

Thank you.

Our next witnesses will be in a panel consisting of Barrett Stambler, of the Solar Lobby, Carl Bergey of the American Wind Energy Association, and David Moulton of the Energy Conservation Coalition.

PANEL CONSISTING OF BARRETT STAMBLER, KARL BERGEY, AND DAVID MOULTON

TESTIMONY OF BARRETT STAMBLER, ON BEHALF OF SOLAR LOBBY

Mr. STAMBLER. I am Barrett Stambler. This is Carl Bergey and this is David Moulton.

I am here today representing the Solar Lobby. Our organization represents over 50,000 individuals and small businesses.

Solar energy has made substantial progress over the last few years since the inception of our organization but there is a tremendous amount of potential that still needs to be tapped.

As you know, Mr. Chairman, and members of the committee, our organization has testified in support of the small business energy loan program several times before and we have testified in front of appropriations committees to insure that this program is adequately funded.

Despite the successes of the program, this program has suffered from problems of direction and internal department support.

In today's economy the high interest rates and the resistance of banks to provide funds to small businesses are major reason that a program like this is important for renewable energy and energy conservation businesses.

This energy loan program has certainly helped in the past but it is not as effective as it could be.

I think the most disturbing thing we found out is that many of these field offices, not the 2 percent that the SBA said, doesn't know about the program, I would say over a majority do not know of the existence of the Small Business Energy Loan Program. Just to test this, I, myself, called some of the SBA field offices and we tried to call some of the major offices in the major cities asking them if the small business energy loan program was in existence. From these offices we found that six out of the nine either said there was no money available for fiscal year 1982 or they said the program no longer exists. Three of them did know about the program. This fact is very disturbing to us.

Also, we feel that the need for the program right now is stronger than when it was originally introduced and passed by you, Mr. Chairman, and the rest of this committee, in 1978.

The urgency to develop renewables and energy conservation is stronger now, especially due to the tensions in the Middle East and the Persian Gulf.

At this point there was still a lot of research and development being done in the renewable energy field and now there is technology ready to go from the laboratory to the marketplace and this program provides those funds for a small solar business to take that technology and bring it to the marketplace. Furthermore, as before, the regular 7(a) loan program did not provide assistance to solar and conservation small businesses. More conventional small businesses had a track record and I think previous to 1978 only three loans, despite the urgings of this subcommittee and the Senate committee went to renewable energy and energy conservation businesses.

The other important thing is that you need a combination of direct and guaranteed loans. Guaranteed loans are not being provided by private banks. There was a New York Times article, I think on April 25, which made clear that guaranteed loans were provided too much paperwork for risky business like solar and conservation with no track record.

Thus, you need a direct loan as a last resort for these businesses.

The other area of importance is that in 1979 we did not see the activity of development that is happening in Japan, Germany, France and the renewable energy area.

While we sold 100,000 solar collectors to consumers in the United States in 1980, the Japanese sold 800,000 collectors. Although there has been substantial progress in this country, the Japanese are eyeing the export market here and unless we continue to help small businesses that can bring these technologies to the marketplace we could be seeing Japanese promoting their markets in the United States.

I would just like to make a few recommendations and observations.

First, I would like to commend this committee, despite administration opposition, to continue to support the direct and guaranteed loan portion of this fund. Right now in the budget resolution is assumed $10 million in direct and $15 million in guaranteed for fiscal year 1983 and we hope this committee continues to recommend to the Appropriations Committee at this level.

Probably the most disturbing fact for us is that very little money has been expended this year. There has been expended $700,000 out of the $10 million. Now SBA's explanation for this is the general condition of the economy and the increased interest rates on the direct loans; $700,000 being just for the direct loans.

We do not think this is the entire picture for the decrease of loans expenditures.

First of all, we checked to compare the energy loan program expenditures with other categorical programs at SBA and it was discovered that 77 percent of the funds appropriated for direct had been expended. In the handicapped area, 47 percent of the funds have already been expended. This is as of June 1982. The lowest is the economic opportunity at 32 percent and we have energy taking up the rear end at 7 percent.

I think with the combination of the field offices as we just heard from Catherine Lyons, not knowing about the program, we also have a specific example of when a company called up a field office and asked, just a few days ago, about the energy loan program and they were informed the program no longer existed.

Well, this energy company knew the program existed and insisted that the program existed. So the women said that they would go back and look at the files.

What happened when they looked back at the files was that there were two memos, one in March 1981, which was sent out by SBA saying there was no money available for this program which we wonder if that, at that point, was a proper thing for SBA to do. And then, second, there was a February 1982 memo which said there were limited funds for energy but this loan officer had not seen the second memo.

So there is quite a bit of confusion, not just coming from the local field offices but I think the direction coming from the NSBA to the local offices.

In conclusion, as your report states, there are a lot of success stories under this program. Many small businesses who say their survival depended on the solar and conservation loan program. Almost 400 companies have received the loans and we commend and hope that since this committee continues to promote this program we think it is crucial for the development of renewable and conservation.

[Mr. Stambler's prepared statement follows:]

PREPARED STATEMENT OF BARRETT STAMBLER, ON BEHALF OF SOLAR LOBBY

Thank you very much for the opportunity to testify today on the 7(l) Small Business Energy Loan Program. My name is Barrett Stambler and I am with the Solar Lobby, a national organization that represents over 50,000 individuals and businesses dedicated to the development of renewable energy resources and energy conservation. Since our inception in 1978 renewable energy development has made substantial progress, but we are far from realizing the tremendous potential of this energy resource. The only way to bring new renewable energy technologies to the American people, is through private enterprise. The Small Business Energy Loan Program has and could continue to make available innovative renewable technologies to consumers in the United States. However, despite the many successes of this program, it has suffered from problems of direction and internal department support. The Solar Lobby is here today to praise the energy loan program's success stories, but also to make some suggestions and observations that will encourage the development of a much stronger program.

Currently, the small business community, and renewable energy businesses in particular, are finding it very difficult to survive in today's economy. High-interest rates and the resistance of banks to provide loans to small businesses are the major reasons for these difficulties. The SBA Energy Loan Program has helped ease the situation in the past, but it is not nearly as effective as it could be. For example, the Solar Lobby contacted nine SBA district offices to test their knowledge of the program. Only three of the offices knew money was available for the energy loan program, while the six other offices thought the program no longer existed or no money was allocated for energy loans. Discoveries like these are very disturbing. However, there is no question this program *can* work effectively if the Congress and SBA work to make it known and helpful.

The Solar Lobby has supported the Small Busines Energy Loan Program since its beginning in 1978 when the Chairman of this Subcommittee, Mr. Bedell, and several other members on this Committee worked so hard for the creation of this program. Our organization has previously testified before this Subcommittee on this subject in the hope of ensuring that the loan program was implemented correctly. We have also worked hard to make sure adequate funds are appropriated for the energy loan program. Historically, the Solar Lobby has followed this program closely and strongly believes that the Small Business Energy Loan Program is an important tool for providing "hard to get" capital to renewable energy businesses.

The need for this special loan program is stronger now than when the program was originally signed into law. If this Administration is serious about weaning renewable energy from the government's trough, then this program is absolutely necessary. Renewable energy development is at the stage where businesses must take their technology and bring it to the marketplace. In order to do this, solar and conservation small businesses need many things, but the most important is capital. The Small Business Energy Loan Program provides necessary capital for a small business to successfully market, develop and sell its products. According to this subcommittee's study, which in most areas agrees with our discussions with small businesses in the renewable energy area, this loan program has been extremely successful.

This program was set-up in 1978 to provide loans for the development of renewable energy businesses for several reasons. Each one of these reasons for developing this program still exist. First, there was a national urgency to develop alternative energy sources to replace expensive, imported fossil fuels. This problem has not gone away and in fact has been exacerbated by the growing tensions in the Middle East and the Persian Gulf. Targeting money to renewable energy and energy conservation is even more important now, during times of economic recession and high unemployment.

Second, the regular 7(a) Small Businesss Administration loan program was not providing loans to renewable energy and energy conservation businesses. In the past, despite urging from this committee and others, few loans were ever awarded to young, solar and conservation businesses under the regular 7(a) program. Due to the unfamiliarity of the solar technology to banks and SBA's loan officers, and the lack of a track record, conventional small businesses almost always receive the loans. Thus, in 1978, this Committee wisely saw the importance of a special program that both recognized the need to develop renewable energy and energy conservation businesses and also took as a given the inherent risks of funding a developing, often unfamiliar, technology. Times are tougher now for even conventional small businesses who try to deal with banks. On April 25, 1982 the New York Times ran an article titled, "How the Banks are Squeezing Small Businesses," which outlines the difficulties small businesses are having in dealing with financial institutions. Banks often charge small businesses higher interest rates then larger businesses, and "old relationships are fading." This loan program has enabled small solar businesses to receive funds that would have otherwise gone to more conventional businesses.

Third, this program provides an option for those businesses that cannot obtain guaranteed loans from conventional lending institutions. Direct loans are an area of last resort for solar businesses. As the New York Times stated,

". . . Bankers contend that it often takes a lot more time and effort to determine the creditworthiness of a small business than of a major corporation, and that often a lot more paperwork is involved, especially if the loan is guaranteed by The Small Business Administration."

With banks making it more and more difficult for small businesses to obtain loans, a direct loan program is a necessary component for the overall effectiveness of the program.

Not only do we need this loan program for the development of renewable energy and energy conservation, but investment in a new technology tailor-made for small businesses will contribute to the economic recovery of our country. The energy conservation and renewable energy industries could grow very quickly in this country. Sales of active solar collectors increased from $17 million in 1975 to an estimated $400 million in 1981 and there were 50 manufacturers in 1975 compared to 300 in 1982 in the United States. However, the Japanese and several other foreign countries are much further ahead of the U.S. in the renewable energy area. For example, the Japanese consumers bought 800,000 solar water heaters in 1980 compared to 100,000 bought by U.S. citizens. And now the Japanese solar businesses are eyeing the U.S. as an export market. At the same time, the Solar Energy Industries Association informs us that 85 percent of the U.S. solar industry is small businesses, but many of these are struggling to survive and several have gone bankrupt. If we do not provide assistance to our solar small businesses, the U.S. will lose an excellent opportunity for employing some of our idle workforce and we may very well be buying solar equipment from Japan, Germany and France.

Moreover, small businesses are the backbone of this economy. David Birch's work at MIT shows that small businesses with fewer than 21 employees created 86 percent of all new jobs in the private sector between 1969 and 1976. Small businesses are also the innovators in the economy. Almost half of all innovations between 1953 and 1973 came from small businesses according to an OMB study. It is the small business sector that must be counted on to develop this young technology. At the same time, as previously discussed, it is this crucial component of our private industry, small business, that has the most difficulty securing loans through conventional institutions. It is for these reasons that this loan program must be maintained. Specifically we would like to make several comments and recommendations concerning this loan program.

First, we have maintained for many years that direct loans are necessary to make this program work effectively. We commend this Committee for supporting fiscal year 1983 funding level at the same level as fiscal year 1982—$10 million in direct loans and $15 million in guaranteed loans. Despite strong Administration opposition, this committee should continue to support the direct loan portion of this program. We must reiterate, now more than ever, banks must provide guaranteed loans to small businesses developing an unfamiliar technology.

Second, we are very concerned about the limited funding expended this year. SBA informed us that this decrease in loans was due to the general poor condition of the economy and an increase of the interest rates for direct loans. Certainly this has contributed to some decrease in loan applications, but it does not account for the fact that only $700,000 out of $10 million was lent (according to SBA's budget office). This is in contrast to 1980 when according to an internal SBA memo, monies for the direct loans were expended after only 30 days of the first quarter leaving a very long waiting list for future funds. We feel the decreased demand for the loan program may be due to the mixed signals coming from the national SBA to the local SBA offices. Supposedly in March, 1981, the national SBA sent a memo to their field offices that funds for the energy loan program no longer existed. However, money was still available for this program. In February 1982, SBA sent out another memo saying loan funds, although limited, did exist for this program. A telling example of the confusion that exists in the field occurred in Oklahoma. There, the SBA field officers saw the first memo but not the second. After a call from a wind energy business that insisted the program still existed, the SBA field officer checked the files and located the second memo. For months, this field office had assumed the program no longer existed. Our research shows that the Oklahoma office was not the only SBA office that did not know of this program's existence. As we stated earlier, knowledge of this program has been uneven indeed. Thus, due to SBA's inadequate promotion of the loan program, we believe much of SBA's 1982 funds have gone unused. SBA must advertise and market this program more effectively

Although cosmetically the energy loan program has been placed under the 7(a) regular loan, we commend this committee for maintaining a separate appropriation for the energy loan program. Unless money is specifically targeted to solar and conservation businesses, these businesses will not get their fair share.

Furthermore, since guaranteed loans are an important part of this program, conventional lenders must be encouraged to provide guaranteed loans to solar and conservation businesses. Guaranteed loans provide an excellent opportunity to educate lenders about solar and conservation technologies. SBA should establish an educational program for conventional lenders on solar and conservation small businesses. If this does not occur, banks will continue to discriminate against solar businesses. The paperwork for banks interested in providing guaranteed loans must be brought under control. The Solar Lobby also strongly recommends that further incentives to encourage financial institutions to provide guaranteed energy loans be developed.

In conclusion, this program has had many administrative difficulties, but we should not penalize solar and conservation businesses for this. Close to 400 businesses have participated in this program, and as your study points out and our research confirms, the survivial of many small solar and conservation businesses is directly related to the existence of this program.

We commend this Committee for holding an oversight hearing on this issue and urge you to continue promoting this program. I would be glad to answer any questions from the Committee.

Mr. **Bedell**. Thank you very much, Mr. Stambler.

Mr. Bergey?

TESTIMONY OF KARL H. BERGEY, JR., PRESIDENT, BERGEY WINDPOWER CO., INC., ON BEHALF OF AMERICAN WIND ENERGY ASSOCIATION

Mr. **Bergey**. Thank you for the opportunity to testify.

My name is Karl Bergey. I am president of Bergey Windpower Co. We manufacture small windpower generators in Oklahoma. I am also a professor of mechanical engineering at the University of Oklahoma and, prior to that, was vice president of research and engineering at one of the Rockwell International Divisions. I am also representating the American Wind Energy Association here this morning.

We have been seeking financing over the past year for a new program of building a larger machine for what we see as a very important part of the market. This search for financing is part of our plan and has been developed over a number of years. We recognized at the beginning there were a number of technical hurdles to overcome in designing and producing windpower machines. We decided that it made good sense to develop a strategy in which we put out a relatively small machine, worked out all the problems and then moved onto larger machines.

The experiences we gained in the startup stage would allow us then to expand to new and larger machines with considerable confidence. The first part of that strategy has been quite successful. We are now producing a 1-kilowatt machine. We have produced over 150 of them. They are now being used in many States in the United States and overseas.

Mr. **Conte**. Could you tell us a little about those machines?

Mr. **Bergey**. Certainly. They are 1 kilowatt in a 25-mile an hour wind, a little less than that, 24 miles an hour. We started out with the idea that this was not for hobbyists anymore. It is for people who really want to generate windpower. So they were made so that literally the owners can have them put up and forget them. They turn themselves out of the wind automatically at high wind speeds. They are guaranteed up to 120-mile an hour winds. They feed power into the home automatically and it is automatically synchronized with the power from the utility. That means that the power going into the house from the windmill is used preferentially by the house for all the appliances that are on. If the windmill is not producing as much power as is required by the house, then the house automatically draws from the utility the additional power needed. If the windmill is producing more power than is being used in the house, it runs the meter backwards. It is entirely compatible. The appliances, lights, and so on, can't tell the difference between the power from the utility and the power from the windmill.

Mr. **Conte**. And that comes in alternating current?

Mr. **Bergey**. It does indeed. Same frequency. Same voltage.

Mr. **Conte**. Terrific. Is that being sold commercially?

Mr. **Bergey**. Yes, it is. We have produced about 250. I have a booklet with me.

Mr. **Molinari**. You sell it in Oklahoma, do you?

Mr. **Bergey**. Yes. We have 84 machines in Oklahoma running right now and I am happy to say every one of them is running. I get a regular report on it.

Mr. **Conte**. What is the price of it?

Mr. **Bergey**. The base price for the machine itself, including all of the electronics and so on, is $3,195. When you add a tower and other pertinences and the installation costs, it generally comes to about $5,000 or so.

Mr. **Conte**. You are going to have to have it a long time before you recap that money?

Mr. **Bergey**. Well, of course, as you know the tax credits are very favorable, so that helps quite a bit. Your net cost is considerably less than $5,000. But you are right. It is a small machine and that is one of the points that I make. We set out deliberately to design this small machine with these quite advanced features on which we have patents, by the way, and to test out to make sure that it was going to be all right because we were too small and not financially strong enough to build very large machines.

If we had built larger machines and if they had had difficulties, we would have been hard put to support them. We are now past that stage. Technically, I believe they are the best on the market by quite a bit. We are now ready to move onto larger machines.

Mr. **Molinari**. If the gentleman would yield, I am interested in picking up the question that Congressman Conte raised. Would it not be more economically feasible to build a larger unit that might service 10 or 20 or 30 houses?

Mr. **Bergey**. Yes, it would indeed. But I might say that one of the advantages of windpower is that it can be used for all sorts of things. We also make a unit that can be used for charging batteries, so we have a number of our clients using systems for repeater stations, for televisions and radio, for warning systems, for communciations of all kinds. We have them being used in cabins that are away from the power line so that there is a demand for a small unit of this sort.

But you are quite right. The larger units are more effective from a cost standpoint.

Mr. **Molinari**. Do you build large units?

Mr. **Bergey**. No, that is what we are aiming to do now.

Mr. **Molinari**. I see.

In the State of Oklahoma, if there was a large unit, do you know what the State regulations are with respect to private utility companies being forced to buy surplus that you might have?

Mr. **Bergey**. The PURPA regulations speak to that and the utilities are required to allow technically competent machines to interconnect.

Mr. **Stambler**. I wanted to add something on the PURPA issue, and that is that currently there is legislation introduced in the House and the Senate that would resolve some problems that have occurred, legal problems with the development of the section 210 of PURPA which allows the buying and selling of power. There is some question now, unless this issue is resolved in Congress shortly, as to what States are required to do now under PURPA in terms of interconnection and the rates that they are required to spend. They are working hard to try and resolve those issues right now.

Mr. **Conte**. I cosponsored that with Mr. Ottinger?

Mr. **Stambler**. Right. In fact, there is a markup scheduled for Wednesday in Mr. Ottinger's subcommittee and, of course, our organization is strongly supporting that bill, H.R. 6500.

Mr. **Bedell**. Were you through with your testimony, Mr. Bergey?

Mr. **Bergey**. No. Let me say just a few more words.

We were leading up to the point that there are economies of scale and we are ready to move on to a larger machine. For this you need capital and, generally, second-round capital is more difficult to obtain than the first round. When you get to the point that you must expand the business and go on to more products which are generally much more expensive than the first original product, there are generally alternatives. You can seek bank loans that have been already approved. That is more difficult in a new technology such as windpower. You can seek venture capital, but most venture capitalists are not interested in the relatively small loans that are often needed in this area.

We have had a number of discussions with venture capital firms and find that in many cases, they are not much interested in anything under $5 to $7 million. So the SBA provides, in my view, an essential function in getting the relatively small businesses started.

You can sell stock to the public and, of course, this is an alternative, but this also is extremely complicated as we all know. You can also structure an R&D limited partnership. We have devoted a fair amount of time to that over the past 8 to 10 months. It turns out that the investment climate appears to be very unfavorable. We found this rather disappointing because our machine, has probably established the best reliability record on the market. It is attractive. It is cost effective. In fact, in our first full year of production we gained, I believe, approximately 15 percent of all the market for windpower generators of 1 kilowatt and greater.

There are a number of reasons, that solar energy, and windpower in particular, is not seen in an attractive light by investors. One of them is that the Federal Government has cut back considerably in R&D and, I think, the private sector sees this as a considerable reduction in support by the Federal Government. The Public Utility Regulations Act, PURPA, has been subject to serious challenges and I think people see that again as a downgrading of solar energy.

What is left for many entrepreneurs then is the Small Business Administration loan. It is absolutely essential. There has been some discussion of the role of interest in that loan program. It is true the interest rates are high, but it seems to me any entrepreneur faced with the necessity of getting the money for continuing growth of his company considers that a relatively secondary situation. The interest rates are high, but if the company has reasonable prospects, those can be repaid.

As I mentioned before, I think the SBA serves an absolutely essential role in this intermediate financing between the large venture capitalists on the one hand and the relatively modest startup costs that are often required at the very beginning. If the company has been in business for a few years and has a good relationship with its bank, it can generally get a bank loan with guarantees by SBA to make up for a lack of collateral.

On the other hand, there are many companies in this business that do not have this relationship or the track record to encourage a bank to make direct loans. In that case, the direct loan role for the SBA, I think, is absolutely critical and I would certainly urge the subcommittee to maintain and, if possible, even expand the 7(l) program. It is essential to the development of small energy businesses.

Thank you.

[See app. H.]

PREPARED STATEMENT OF KARL H. BERGEY, JR., PRESIDENT, BERGEY WINDPOWER CO., INC., ON BEHALF OF AMERICAN WIND ENERGY ASSOCIATION

Mr. Chairman and members of the subcommittee, thank you for the opportunity to be here today and testify on the Small Business Administration's 7(l) energy loan program.

My name is Karl Bergey, and I am president of Bergey Windpower Company (BWC), a manufacturer of small wind systems located in Norman, Oklahoma. BWC is a member of the American Wind Energy Association, and I am also representing the Association here today.

BWC has been seeking financing over the better part of the past year for a new and more powerful version of its present wind system, and my experience during that time has convinced me that a program such as 7(l) can be a great help to the hundreds of entrepreneurs who are attempting today to launch small businesses in the alternative energy field.

Our search for financing at this time is a planned and integral part of our long-term business strategy, which has been developed over the past 10 years.

There are major technical hurdles to be overcome in developing a low-cost, effective, and reliable residential wind system. Our awareness of this fact convinced us that our best business strategy was to start small—to develop and market a system small enough so that design problems which might be encountered once the machine was in the field could be corrected without exceeding the financial capabilities of our company. The experience developed during this start-up phase would allow us to expand to new and larger machines with confidence.

The first part of that strategy has been successful. We are producing a 1-kilowatt system today, and feel after two years of sales to the public that our machine will stand the test of time.

We are now engaged in the second phase—to use our experience and the patents which we have obtained to build a substantially larger system and get it into production. That phase, of course, requires additional capital, and in fairly large amounts in comparison to what we have done previously.

I would like to add parenthetically here that I believe our experience is faily typical of small wind companies. During the initial start-up phase, when the entrepreneur is doing research, development, and early production, expenses tend to be within his financial capabilities. The second stage, in which new product lines must be developed and marketed, requires investment which is normally beyond the resources of an individual and his initial backers.

It is at this key point in the growth of a small business that a serious financing drive must begin, and where the Small Business Administration can play a key role.

Generally speaking, there are four major alternatives open to the entrepreneur at this point.

The first is to seek a commercial bank loan. Banks are generally conservative institutions, and are forced to require sizable collateral in order to carry out their responsibilities to their depositors and stockholders. Typically, a small wind company will be unable to meet these collateral requirements.

Second, the entrepreneur can seek financing from a venture capital organization. The principal obstacle here is that the financial required may be too small. Venture capital companies often have sizable amounts of funds which they must supervise, and are therefore often reluctant to spread those funds among too many companies. This translates into a minimum size requirement, which in our experience has been as high as $7 million. Since we were seeking from $350,000 to $700,000, we were well below the general range.

Third, the company can attempt to raise money by selling stock to the public. This alternative is often distasteful to the entrepreneur, who is generally most productive when fully responsible for the operation and management of his company. In addition, the present economic recession has made this choice a difficult one to carry out successfully.

Fourth, the company can attempt to structure and sell research and development limited partnerships. This avenue is attractive to many entrepreneurs because it provides additional funds without significantly reducing their ability to guide and manage the enterprise which they have created. BWC pursued the limited R&D partnership route for about 10 months, investing large amounts of time and money—both extremely scarce resources for a small business—but was unable to attract sufficient investment.

I would like to expand on our experience with this alternative. I must tell you that it has been extremely discouraging for us. Despite the fact that we have an attractive product which has been tested and proven in the field, despite the fact that we have full patent coverage, despite the fact that we produced last year 15 percent of all the wind systems sold in the United States of 1 kilowatt or greater in size—we could not obtain sufficient backing to complete the partnership.

There are a number of reasons for this. Perhaps the most important is the perception of many investors that the climate for renewable energy businesses is no longer favorable. The federal government has cut back sharply on research and development of renewable energy technologies. The Administration has sought to repeal the energy tax credits on more than one occasion. And the Public Utility Regulatory Policies Act (PURPA) has been under a cloud for the past two years because of adverse court decisions.

Add all of these factors to the general state of the economy, which has created a poor investment climate overall, and it becomes apparent why small energy companies are finding it difficult to attract the financing they need.

In these circumstances, the option of an SBA loan becomes critical to their prospects.

The size constraints on SBA loans are important. They fill the gap between the relatively small amount of capital needed for first-phase R&D and the relatively large amount of money needed to interest a venture capital organization.

If a company has been in business for a few years, as we have, and has a relationship with its local bank, a loan guarantee provides the assurance of repayment needed to allow the bank to reduce its otherwise overwhelming collateral requirements.

If the company is newer, and has little or no track record or bank relationship, the direct loans which have been available under the 7(l) program still provide the opportunity to obtain financing—an opportunity which otherwise might not exist at all.

Development of our nation's renewable energy resources must continue to be a major national objective. It is becoming increasingly clear that our domestic reserves of fossil fuels are limited and over the long-term will become steadily more expensive and difficult to exploit. Small energy businesses can play an important role in leadership and technical innovation as we make the transition to an economy more heavily based on renewable energy. They can repay the federal government's investment many times over with jobs and tax payments.

For all of these reasons, I strongly urge the subcommittee to maintain and, if possible, to strengthen the 7(l) program.

Mr. BEDELL. Thank you very much, Mr. Bergey.

Mr. Moulton?

TESTIMONY OF DAVID H. MOULTON, POLICY DIRECTOR, ENERGY CONSERVATION COALITION

Mr. MOULTON. Thank you, Mr. Chairman.We appreciate this opportunity to testify before you.

My name is David Moulton and I am the policy director of the Energy Conservation Coalition which is a coalition of 15 consumer, citizen, environmental, and energy groups. We have individual members who are businessmen, but we are coming to this issue today from the point of view of public interest groups that are extremely concerned about the flagging interest in our energy problems and, in particular, the flagging interest in the contribution and energy conservation that renewable energy can make to preparing for the inevitable energy cutoffs that we will see in the 1980's or if not cutoffs, then price increases that make it hard for all of us to survive as businesses or consumers.

We support this concept of the Federal loan program that targets capital on businesses that are entering the energy conservation renewable industry.

I would like to ask that my entire written statement be placed in the record and I have a few points that I can make very briefly.

Mr. BEDELL. Without objection, it will be entered in the record. You may summarize as you please.

Mr. MOULTON. Thank you.

First, I find it extremely discouraging that your committee has had to go to the great lengths that it has to get evaluative information about this program. Unfortunately, that seems to be a pattern of late. The administration, unfortunately, does not want to evaluate ongoing programs even when they oppose them. Opposing or supporting, there is just very little evaluative activity going on at the Department of Energy, SBA, HUD, other places that have particular responsibility for energy conservation programs, as you now know first hand.

It is a blind spot for them that, unfortunately, robs all of us of extremely valuable information on the effectiveness of these ongoing programs. Such information would allow us all to be wiser about actions we may be tempted to take in the future regarding energy conservation and renewable energy. It is their responsibility to execute the laws of Congress, not yours, and I encourage you to continue to press them for information similar to information you have been pressing for and they say is not available.

Mr. Holloway, for example, said this morning that they cannot estimate the energy savings of this program.Well, I certainly would like to know with more specificity exactly what steps they took to measure it or why it is that they cannot measure it and whether there are proxies that at least could give us some information to go on.

For example, the interest rate changed from somewhere in the neighborhood of 9 percent to 15 percent. That is quite a large change in the program and by itself could account for the fact that so little money is going out now. Unfortunately, that is going to be a difficult one to grapple with in view of the fact that so few SBA offices are even telling people about the program. But I think it is clear that the Government could confidentially collect information that is proprietary about the number of sales of these companies and in an aggregate sense give us some feel for what this progarm has made happen.

I would urge you to continue to try to collect that information from them and press them for more specific answers on that.

I think it is important to make the broad point that you are dealing with an economy that has collapsed and in many cases the administration has justified activities or approaches to energy conservation in the past 2 years on the grounds that since energy demand has been trending down in the short term, we should declare victory and stop the war.

But I think we all know or can sense intuitively that demand reduction has been resulting directly from this decline in business activity and to the extent that the energy demand reduction is the result of factories closings and business bankruptcies and other forms of slumping economic activity, we have to be extremely disappointed in the demand reduction, not proud of it.

The program that you have enacted here and are attempting to improve is one that directly counteracts the tendency to sit on our hands when energy demand reduction goes down even when that is resulting from slumping business activity. You have been able to, with this program, target money in a way that allows us to keep energy demand down while stimulating growth and that is exactly the kind of energy conservation that we ought to be struggling towards.

I have quoted a study in my prepared statement from Oak Ridge that has attempted to quantify how much of the demand reduction is from business activity slumping and curtailment activities on the part of individuals and businesses and it is quite a dominant proportion of it. Somewhere in the neighborhood of 70 percent of the demand reduction in 1981 was from these effects and only the residual 30 percent or less is from technical improvements in efficiency that are going to be with us regardless of what happens in the short term to energy proxies, and so I believe that this program is extremely important for its contribution to target money on efficiency.

Three more points, regardless of the views of the SAFE-BIDCO representative earlier, we believe the direct loan part of this program is extremely important. California has been a leader, as you know, in many of these areas regarding energy conservation in ways in which we can make the market work better and this attempt with SAFE-BIDCO to leverage loan guarantees is an extremely interesting and valuable one.

Unfortunately, I think it is premature to make a national policy around this one example. As you pointed out, it is unique and the experience that we have had up to now with the loan guarantee portion shows that it has not been the engine that has driven the program. Rather, it has been driven by the direct loan portion of the program and it is extremely important to keep that alive and functioning while we experiment with ways to make the loan guarantee program work more effectively.

I think the desire to eliminate the program in favor of the general SBA program is wrong for the same reason that you created the program in the first place. The experience been that alternative energy business have simply not been able to benefit from the general loan program. The categorical program is what is getting many of these businesses started and the wisdom of the program has been borne out by the experiences we have had in the last 2 years.

We have one final point regarding the way that the program is currently targeted. Energy conservation differs in some ways from emergent solar technologies in that many of the things that businessmen might get involved in with regard to energy conservation are not, strictly speaking, new technologies. If you are starting an insulation business, you are often dealing with technologies and business decisions and a business climate or context and structures that are, relatively speaking, quite familiar to bankers.

On the other hand, there are conservation technologies that, for example, with regard to glazings and furnace retrofits that are quite new and quite untested. The committee has collected a great deal of data through question 13 in the questionnaire you sent out for purposes of doing the staff study. I would just urge you to study those responses carefully and if, in fact, it appears that a large proportion of the money is going to activities that are not new technologies and are not technologies for which we have no track record, that there be some attempt to try to retarget the program, as I say, to innovative ideas which are the kind that a banker has a hard time evaluating since there is no track record. This is the kind of activity that we believe the committee is most interested in sponsoring through this program.

I thank you.

[Mr. Moulton's prepared statement follows:]

PREPARED STATEMENT OF DAVID H. MOULTON, POLICY DIRECTOR, ENERGY CONSERVATION COALITION

Thank you very much for the opportunity to testify today on the future of the Small Business Energy Loan Program. My name is David Moulton and I am the Policy Director of the Energy Conservation Coalition. The Coalition consists of fifteen energy, environmental, citizen and consumer organizations dedicated to the development of our best source of energy, conservation. We support the concept of a federal loan program that targets capital to businesses that are entering the energy conservation and renewable energy industry, and we believe that the Small Business Energy Loan Program administered by the Small Business Administration deserves special praise. I will review, briefly, our reasons for these positions.

We believe it is clear that the amount of investment in energy efficient technologies remains miniscule relative to the need for such investment. Although we have made tremendous strides towards energy efficiency in the United States since 1973, the potential remains largely untapped. In the most recent comprehensive analysis of the potential for energy conservation and renewable energy to meet our national needs, the Solar Energy Research Institute concluded that we could achieve average annual real growth rates of 4 percent for the next 20 years, yet reduce today's end-use demand by over 20 percent by the year 2000. (Report, "On Building A Sustainable Future", Committee Print 97-K, U.S. House of Representatives, April 1981).

Recent history has demonstrated this power of energy efficiency to generate new growth even while controlling energy use. From 1973 to 1980, this country was able to sustain a moderate rate of real growth in spite of two unprecedented energy price shocks. It is not often recognized that this growth was made possible almost entirely as a result of energy conservation. ("Energy Conservation: Road to New Growth in An Era of Uncertain Supply", Report of the Energy Conservation Coalition, October 20, 1981). Without energy conservation, our pre-1973 rates of energy consumption would have resulted in seven years of economic stagnation and unemployment, or an even more inflationary energy price surge as imports rose or the search for conventional supplies became increasingly desperate.

Therefore, we believe that targeting scarce capital on a clear national priority like energy efficiency investment is justified even in good economic times. It is even more critical during periods of high interest rates that stifle investment. We have apparently entered such a period. We have seen virtually no real growth in GNP over the last five quarters. While the second quarter of 1982 saw a small but welcome rise, we are still well below the previous high attained 15 months ago. At the same time, we have witnessed some reduction in energy demand. Unfortunately, this reflects the decline in business activity more than progress in energy efficiency. An analysis by Oak Ridge National Laboratory reveals that as much as 70% of the demand reduction in 1981 reflected curtailment and recession, while less than 30% reflected technical improvements in energy efficiency. If we care about the future, we simply must act now to increase investment in energy efficiency dramatically. Certainly, any demand reductions that reflect factory closings and business bankruptcies are not the type of energy conservation measures that we should accept.

If these are strong reasons for an energy loan program generally, why small businesses specifically? There are three major reasons. First, small businesses are critical to increasing efficiency of existing buildings, which is a particularly promising area of energy efficiency potential. In fact, according to the SERI report cited above, "the energy which can be saved in buildings in the United States represents the largest and least expensive source of energy which can be supplied during the next two decades."

Second, new industries like energy conservation could be the source of many new jobs, particularly since the development of this technology is so well suited to small businesses. Study after study shows that small businesses are our most powerful job creators. Professor David Birch of MIT concluded that businesses with fewer than 21 employees created 86 percent of all new jobs in the private sector between 1969 and 1976. Firms with 250 or fewer employees produced 90 percent of the 6.8 million jobs created from 1965 to 1976.

Third, small businesses specializing in the energy conservation field suffer several inherent disadvantages in the private capital markets. They must deal with lenders who are unfamiliar with the energy conservation and renewable energy business. They lack the clout and resources to educate these lenders. They lack collateral. They are often exploring technologies or markets about which there is not much history. All of these factors add up to a "high-risk" profile in the eyes of conventional lenders.

ECC's research as well as your recent staff study confirms the usefullness of this program in promoting small conservation and renewable energy businesses. Close to 400 businesses have received these loans and a majority of these companies support the program and are extremely thankful for the assistance. We do, however, wish to make the following specific comments on the current program.

First, the direct loan component of the program should be maintained. Guaranteed loans often are not a large enough incentive for banks. Banks remain reluctant to provide even guaranteed loans to enterprises in an unfamiliar field of business for fear of default. A specifically targeted direct loan program provides a critical option for those businesses that cannot secure conventional or guaranteed loans.

Second, we are concerned that SBA has spent only a small portion of the direct loan money for fiscal year 1982. Past experience indicates that demand for direct loans has always exceeded funding. However, this year this is not the case. Although there may be other explanations, our informal conversations with local offices suggest that the Small Business Administration is not currently advertising and administering the direct loan portion of the program properly. As your study points out, too many local SBA offices remain totally ignorant of the program's existence. SBA must be prodded into marketing this program through its entire network of local offices. We urge the committee to press the Administration for answers to this problem.

Third, we oppose the Administration's desire to eliminate the energy loan program in favor of the general 7(a) program that makes and/or guarantees loans to all kinds of small businesses. The history here is clear. Virtually no energy conservation or renewable energy loans were made from the general 7(a) program prior to setting up the energy loan program. We support maintaining separate appropriations for the energy loan program.

Finally, we hope the Committee will address the extent to which limited program funds could be more carefully targeted on new energy technologies. Certain types of energy conservation technologies are well-known and well-understood by lending institutions. However, new technologies lack a track record and are not well-understood; thus they have the most difficulty attracting conventional loans. Therefore, we believe that, to the maximum extent feasible, the small business energy loan program should confine its lending to these emerging technologies. with this concern in mind, we urge the Committee to review the answers to question 13 on the survey form used to collect information for the staff study.

Thank you very much for this opportunity to present the views of the Energy Conservation Coalition. I would be glad to answer any questions.

Mr. **Bedell**. Thank you very much, Mr. Moulton.

Mr. Conte?

Mr. **Conte**. Now, Barrett, you made a study showing that photovoltaic technology has become very consecrated with oil companies like ARCO which are controlling the market.

Mr. **Stambler**. Yes, we did do a study on the photovoltaic industry and how it is developing.

Mr. Conte. Can you tell us something about that study?

Mr. Stambler. If I remember correctly, since I don't have it in front of me, but we found out that 77 percent of the industry is controlled, the emerging photovoltaic industry is controlled by three companies. Two out of the three are completely owned by oil companies. ARCO owns ARCO Solar. Exxon owns Solar Power Corp. and we have Solarex which is still an independent business at least by all our accounts, but itself is struggling to stay independent. It has gotten 40 percent of its funds or close to 40 percent from AMOCO.

The thing that this points out to us, and in no way do we say that oil company investment should be barred from renewable energy development, because photovoltaics is an expensive process to develop as opposed to some of the other solar technologies which are not as expensive. But we do think that it is important to maintain a balance in the industry. And what is clear to us is that small businesses, and there are a lot up in Massachusetts that are small businesses doing photovoltaic research, I think one is Crystal Systems. The president is Fred Schmidt and he has told us that it has been very difficult for him to obtain capital in this industry.

You need a lot more capital in photovoltaics industry than $150,000 provided in the limits on the direct loan portion of this program. I would say you need over $1 million to bring your technology from R&D stages to the marketplace.

It is a very lengthy study and we try to really discuss where we are. And one of the findings that we think is of major concern to us is that a lot of people believe the semiconductor industry is going to get into the photovoltaic industry, thus increasing competition in the industry, like Motorola, and Texas Instruments. And what we found is even among these what I consider a very important industry and a fairly large industry in this country, they found it very difficult, and I think will continue to find it difficult, to enter the industry and in fact, many of the semiconductor companies we talked to who were either doing R&D or thinking of entering the industry said that if they entered, they would probably need the capital provided by a large oil company.

So again, to the extent that we can work with this committee, a lot of the recommendations in our report, and I did provide it, I think, to Mark Levine of your staff, Mr. Bedell, are to figure out ways to make sure that these innovative small businesses can become involved in all facets of the photovoltaics industry and I think there needs to be more capital than is available only in the small business energy loan program.

Mr. Conte. It isn't very healthy that the oil companies should be getting financing and taking over these small companies in photovoltaics? When the oil shortage came out and John Dingell and myself held hearings here the oil companies were gobbling up all the uranium and coal. They just want a complete monopoly and to destroy any competition whatsoever.

Mr. Stambler. Well, our organization has long supported competition and it is a major concern that the oil companies, to be fair to them, for a young photovoltaic industry, some of these businesses would have gone under without oil company involvement. But, on the other hand, if we are looking at the longrun, what is best for the photovoltaic industry, we need to develop programs.

One of the things that we are doing is cutting back some of our photovoltaic R&D. And the funny thing is that the majority of the money in the photovoltaic R&D that exist don't go to those small businesses up in Massachusetts that need the money. In fact, there have been some problems. I know of examples of problems in Massachusetts of some of these businesses where their contracts were cut off at DOE before some of the larger companies contracts.

So, again, you know our organization is very concerned and would like to work with you, Mr. Conte, and with this committee which has always been concerned to try and insure that we have a nice competitive solar industry.

Mr. **Conte**. Good.

Thank you.

Thank you, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Conte.

Mr. Stambler, apparently your indications are that there are quite a number of the small business field offices that are not giving out the information that indeed these loans are available when people come in to inquire, is that correct?

Mr. **Stambler**. That is absolutely correct.

Mr. **Bedell**. Do you have that documented in any way?

Mr. **Stambler**. What we did was we talked to them and I have written down on a piece of paper exactly what their reasons were.

Mr. **Bedell**. The reason I am asking is that you were here, I think, for the SBA testimony. They have indicated to us that they are willing to send out a memo to all their field offices trying to see that they are properly advised so they will know. There is going to be a special memo to let them know. I think it is too bad we did not do that 6 months ago, but better now than never.

Any help you could give our staff in terms of documentation would make it easier for us to demand of them that they do see that those people are properly advised in this regard.

Mr. **Stambler**. We, of course, will provide all the data we have collected.

Mr. **Bedell**. Mr. Moulton, do you have something on that?

Mr. **Moulton**. Yes.

Mr. Bedell, this is obviously the most frustrating issue that has come out of this hearing for you and I think it is for me, too. It seems to me that sending a memo is important at this stage, but is not necessarily sufficient since they may have done that several times already. I just offer the suggestion that you might ask whether the SBA has ever disciplined a field officer for giving wrong information? It is wrong information when people call up and ask if this program is running and they say no. While that may at first appear possibly unfair to those officers out there who may not have gotten the information properly, it is a way to find out where the buck stops.

Anybody accused of giving out wrong information is going to explain immediately why that is happening, if it is, where they got their information and it is going to go back up the line and we are going to find out where it is that we have got this short circuit. This is inexcusable.

Mr. **Bedell**. Good for you. I think that is a very good suggestion. If we could document any case where this has happened, the committee and certainly the chairman at least would be pleased to demand of the SBA that they advise us as to what has been done. I don't think you can fire somebody over something like this, but to be sure that action has been taken so that that person knows that we are disturbed over the fact that they have apparently given out wrong information.

We can't do that unless we can get documentation to show that so and so in such and such an office has done this and if any of you can get us such information, it would be helpful. If not, any information that the staff could get would be helpful. That is a very good suggestion.

Yes?

Mr. **Bergey**. I have one comment. Mr. Holloway can comply with the strict requests of this committee in getting this information out to the field by getting a memo out perhaps in 4 or 5 months.

Mr. **Bedell**. No, no. That will not happen.

Mr. **Bergey**. I wonder whether there is any possibility, for example, for a telegraphic response.

Mr. **Bedell**. I don't know if we need a telegraphic response, but this committee is not going to sit here for 3 weeks and not have any action. I am sure that Mr. Holloway is well aware of that and I am sure both Mr. Conte and myself are not about to sit here and let that happen.

Mr. **Bergey**. Thank you, sir.

Mr. **Stambler**. Mr. Chairman, if I might. Mr. Holloway did indicate during the recess that his staff would be working with us in an attempt to get at least a first draft of that message to the committee within the next week and I think with that they will be moving quickly.

Mr. **Bedell**. Thank you, folks, very much for your testimony. I appreciate your being here.

Our last witness is Joel Stronberg, an attorney from McLean, Va.

Mr. Stronberg, your entire statement will be entered into the record. If you wish to summiarze it, it certainly would be helpful to the committee.

TESTIMONY OF JOEL B. STRONBERG, ATTORNEY, ON BEHALF OF BRICK INSTITUTE OF AMERICA

Mr. **Strongberg**. Fine.

I am here today on behalf of the Brick Institute of America. The Brick Institute represents 80 percent of the manufacturers of brick in the United States working in conjunction with other colleagues in the building industry, including the National Association of Home Builders, the American Institute of Architects, Bricklayers Union, National Concrete Masonry Association, and the Masonry Industry Committee.

We have been active in solar and conservation issues for more than 2 years. Part of our concern is quite definitely a business concern. We see in the emerging renewables area new markets for our products. As we are going through our 44th month of recession, the obvious turn is to new markets. We know how to make a brick and we know that brick, for example, has excellent thermos.

We are also concerned because of the larger issues that are involved, the major one being a philosophical one, Mr. Bedell. This is something that we have come across at all levels. What we are talking about today, I think, is whether or not Government and industry can stand together. We believe that it can. We believe that there have been excesses certainly in the past years and there probably will be excesses in future years, but neither Government nor industry can do the job that is at hand by themselves.

We have been often told that it is up to the private industry to go out and commercialize or industrialize renewable energy sources.

When you are in the construction industry which is going through a recession and has not built homes or fired its brick kiln in months, it is difficult for you to take the assumption of finding venture capital or investing your own dollars. We believe that the area that is involved in this case, the renewable energy area, is one that the Congress has highlighted for several years, one that deserves to be highlighted.

We understand that there is risk involved in supporting or looking to these small businesses, these new entrepreneurs, but that is exactly the reason the program was initiated. Because we cannot go to the bank and put our portfolio down on the table and expect a loan, the question is: Where do you go for money? If other private sources such as labor unions, for example, can't finance the development, then we must turn to the Government.

As builders and as those that rely on new product developers for the materials that we incorporate into our builders, we were to encourage small business development and believe that most of the innovation that has occurred throughout the country certainly over the last 20 to 50 years has come from small business development and not larger business development.

The speculative aspect is one that was very important. We also see the renewables industry as a domestic industry, one that employs people, one that employs materials, one that, if we don't throw it away, can claim a major share of the renewables market.

I talked several weeks ago to people from the International Energy Agency. Their conservative estimate of what the future of renewable energy is, is that by the year 2000 something on the order of 10 percent of the energy used in the world will be renewable. Translated into dollars, that is a $40 billion market. We want a piece of it.

We also think that we have done most of the legwork that is involved because of the combination of DOE programs, because of the good work, not only of this committee, but House and Senate committees in encouraging energy development. We are now at a stage where other countries, including Switzerland, for example, are buying our information so they can market their products.

We believe that the difficulty that has been in existence over the program for the last couple of years is very clear. If the paperwork is cumbersome, it is because SBA made the paperwork cumbersome. If people don't know about the loans, it is because SBA didn't tell its field offices about the loans. We can't condemn the program for the failures of the administrators.

We think that it is a proper role for the Federal Government to share the developmental stage with industry. We think that the business of Government can be business and it is too glib to just remove programs and investments that have been made over the years. Our difficulty, I think, is that we spend too much money, but we don't invest enough either. We know, for example, that there is a return on the dollar, whether it is in home construction or in the development of a new small business in the renewables area.

I would like to give you a couple of figures that Mr. Stambler actually sent over to my office yesterday. The default rate on the loans under the 7(l) program is so far the lowest within SBA. As of September 31, 1982, the default rate was 1.4 percent amounting to a total loss of $367,000 out of $26 million. This is compared to the 7(a) program, the program that SBA is hoping that they can merge with the 7(l). Under the 7(a), it is 7.9 percent default or $150 million out of the $1.9 billion and the projected default rate is 12.4 percent. In SBA's economic opportunity loan program, the default rate is currently 25.11 percent with a projected 35.6 percent. I think given these figures and given the track record of most renewable energy industries and companies that are still in existence, that we don't have to apologize for being in need of venture capital. Everyone throughout their history, in any industry has been in this exact position. Others have fared and fared well, others with government help, and we want what we think is a mutual partnership which will benefit both our industry and the Nation.

That concludes my statement.

[Mr. Stronberg's prepared statement follows:]

PREPARED STATEMENT OF JOEL B. STRONBERG, ATTORNEY, ON BEHALF OF BRICK INSTITUTE OF AMERICA

My name is Joel B. Stronberg and I am here today on behalf of the Brick Institute of America (BIA). The Institute represents the producers of 80 percent of the brick manufactured in the United States. I would like to note at the beginning of this statement that BIA's opinion of the matter before this subcommittee is shared by other building industry organizations and should be viewed as representative of the larger industrial body which believes that alternative energy options must be pursued dilgently by industry and government.

BIA and the building industry are uniquely suited to comment upon a program which has been designed to foster the growth of the solar industry and to provide investment capital for promising small businesses. Most of the building industry is comprised of small business people. The average home builder constructs fewer than seventeen homes per year; most retail lumber yards are locally owned small businesses; and, many brick companies are family owned and operated enterprises whose average yearly gross sale of brick is below one million dollars.

Throughout the past year, the Institute has devoted much time and attention to the development of solar and conservation technology. Working in conjuction with such other collegial organizations as the American Institute of Architects, the National Association of Home Builders, the International Union of Bricklayers and Allied Craftsmen, the Northeastern Retail Lumbermens Association, the Masonry Industry Committee and the Passive Solar Industries Council, we have met with congressional and administration officials in an effort to define an acceptable industry-government partnership for the further development of alternative energy resources, products and systems.

Our concern for the development of alternative energy sources is not limited to the thousands of jobs which would be created if the efficiencies of new and existing buildings were increased through conservation and solar techniques. We are equally concerned about the serious consequence of not developing and industrializing all domestic renewable energy supplies. For example, the deregulation of natural gas will mean increased costs to brick producers since acceptable alternative sources are not readily available. without available alternatives the "across the board" cost of materials to consumers will rise and the inflationary fire will continue to be fueled.

Although the private market mechanism may ultimately provide less expensive energy options, it is not likely to do so with sufficient dispatch. In the particular case of the building industry, the wait may be very long. In the meantime the nation must experience higher costs and continued dependence upon foreign fuel sources. Whether or not one believes in the current existence of an energy crisis, there can be little doubt that the world's propensity to over-consume diminishing resources can lead to economic, social and political disruptions. Ironically, even should the supply of the world's petroleum be inexhaustible, the social, political and economic unrest often associated with the major oil producing nations would seem to dictate this nation's active pursuit of a renewables energy industry.

During these days of transition from a free to a frugal society, many difficult decisions must be made. Although government expenditures should be trimmed, we must be careful not to trade one set of problems for another. To accurately judge what policies and programs remain, the Congress and the President must distinguish between investments and expenditures. Although each of us could point to government projects which have failed to accomplish their objectives, this cannot be construed as conclusive evidence of the impropriety of government involvement in the private market. In actuality the issue which this subcommittee is exploring is a philosophical one.

Simply stated this committee must decide whether the provision of any assistance to business is a proper role for the federal government. The Congress and the country are being asked to choose between the policy which says that the best government is the least government and the view which embraces the notion that the business of government is business. If the nation has spent too much, it is because it has invested too little. The Brick Institute believes that recovery and stability will come to our economy only after industry and government fashion the necessary partnership.

In these days of extreme recessionary pressures the private market cannot pay the price of development. In the case of interest sensitive industries such as building and automobiles and for new businesses just now attempting to succeed in the marketplace, the impact of being left adrift or unattended is devastating. The United States almost stands alone in its recent decision to abandon industry. With few exceptions, the major industrial nations of the world have forged a public/private partnership and many are currently thriving at the expense of American entrepreneurs.

If the United States is to have a prosperous future, it must now invest in those industries from which future prosperity is likely to emanate. Small businesses serving a domestic population and utilizing indigenous human and natural resources are an important part of the future of this nation; their defeat will mean continued sickness for our economy.

For a small business person to succeed he must have both an idea and the necessary working capital. As the risk of a new business is often higher than for an established venture, lending institutions approach the matter of entrepreneurial support cautiously. The existence of the 7(l) program has served to improve this situation.

Before reaching its final legislative decision, Congress must ask: first, whether such a program is consistent with the function of the federal government; and second, whether the program has accomplished and can continue to accomplish its mission. As already indicated BIA and its construction colleagues believe it proper for government and industry to work in tandem.

As to the second question the answer is not as clear. Since 1978 the Small Business Administration has had responsibility for the conduct of a small business energy loan program, as provided for in Public Law 95-315. However, in its July 1982 review of the program this Committee announced that:

SBA historically has resisted providing financial assistance to firms going into the alternative energy business. The small business energy loan program from its inception, has been somewhat of an unwelcome stepchild at the Small Business Administration. The SBA's lack of enthusiasm for categorical aid programs of any kind, coupled with its historic antipathy towards the alternative energy industry, provide ample reason to wonder if the agency is fulfilling its Congressional mandate to foster the small business sector of the alternative energy industry.

Despite the lethargy of SBA, the program has helped small business people. The Committee's own review has shown the 7(l) program capable of fulfilling its mandate. The program could of course be improved.

Many of the problems surrounding this loan program are agency made. If local SBA offices are ill-informed of the program, it is because the administration has failed to tell its own field staff what they need to know; if the paperwork is cumbersome, it is because the agency has chosen to make it so; if money is not being spent or acceptable applicants not being found, it is not for a lack of eligible businesses; if the program's leisurely payment schedule dissuades small business applicants, then it is the agency's and not the program's failure.

The 7(l) program was designed to provide capital or the access to capital for the higher risk ventures attendant to any emerging industry. Because energy cost and availability are so important to future growth, Congress has chosen to identify this industry as a national priority and to insure the availability of funds. At a funding level of $10 million in direct loan authority and $15 million in guaranteed loans the "price tag" will not bust the Treasury. If, as indicated by the Committee's own review, the program stimulates economic growth then, this expenditure is an investment which will return more to its investors than it takes.

BIA encourages this committee and the Congress to continue the SBA program as a separate and specific effort to stimulate the development of new ideas, new products and new markets in the renewables energy sector.

Finally, the Institute would urge this committee to require of the Small Business Administration diligence in its implementation of its Congressional mandate.

Mr. Chairman, members of the committee, this concludes my statement. Thank you.

Mr. **Bedell**. Thank you very much, Mr. Stronberg, for your testimony and for your summary.

Mr. Conte?

Mr. **Conte**. No questions.

Mr. **Bedell**. The Chairman does not have any questions, but I certainly appreciate your testimony. I think it is right on according to what our problems are and I think particularly the figures that you have given show not only is this a program that is needed in the national interest, at least so far it would appear that it is a program which has been less costly to the taxpayers in terms of the loans made than are other programs. So I certainly appreciate very much your being here and we would like to work with you in every way we could.

Mr. **Stronberg**. Thank you, sir. And again, if my office or the construction industry can be of any assistance, just give us a call.

Mr. **Bedell**. Thank you very much, Mr. Stronberg.

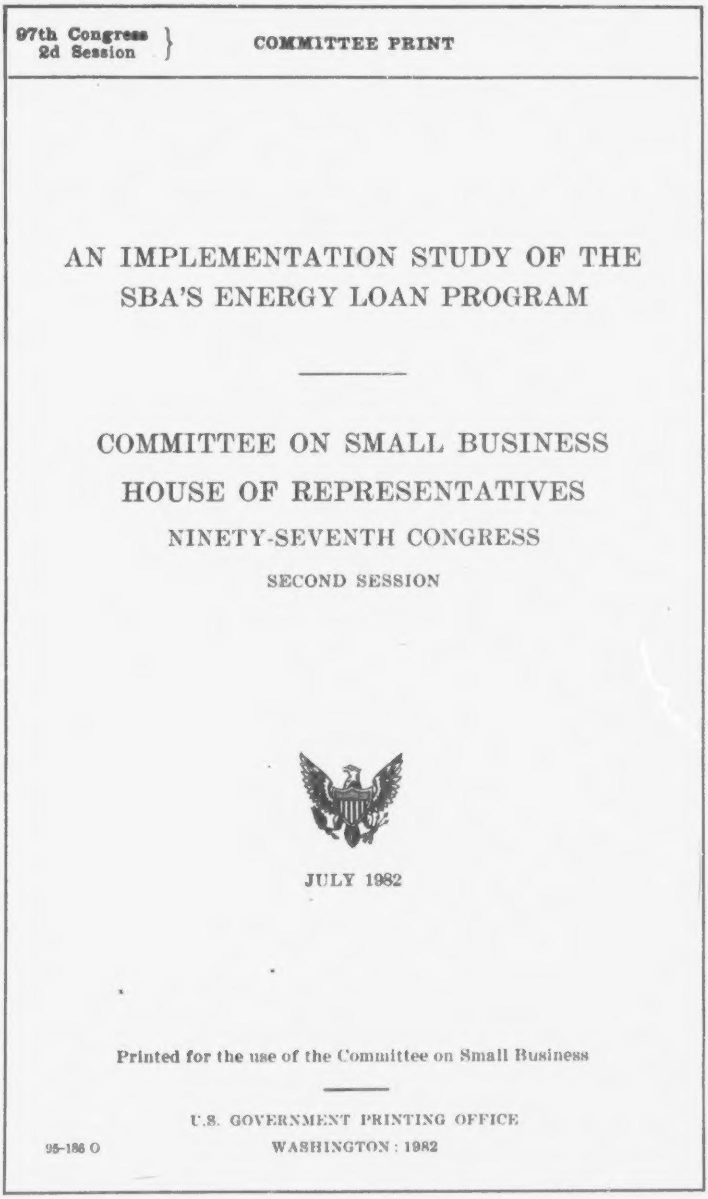
I want to particularly thank you for your time, Mr. Conte. I know how busy you are and I appreciate the time you spent with us here this morning.

The subcommittee will be adjourned.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIXES

APPENDIX A.—STAFF REPORT: "AN IMPLEMENTATION STUDY OF THE SBA's ENERGY LOAN PROGRAM"



97th Congress
2d Session } **COMMITTEE PRINT**

AN IMPLEMENTATION STUDY OF THE
SBA'S ENERGY LOAN PROGRAM

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
SECOND SESSION

JULY 1982

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
95-186 O WASHINGTON : 1982

COMMITTEE ON SMALL BUSINESS

PARREN J. MITCHELL, Maryland, *Chairman*

NEAL SMITH, Iowa
JOSEPH P. ADDABBO, New York
HENRY B. GONZALEZ, Texas
JOHN J. LAFALCE, New York
BERKLEY BEDELL, Iowa
FREDERICK W. RICHMOND, New York
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
ANDY IRELAND, Florida
IKE SKELTON, Missouri
BILLY LEE EVANS, Georgia
CHARLES W. STENHOLM, Texas
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
BYRON L. DORGAN, North Dakota
GUS SAVAGE, Illinois
BUDDY ROEMER, Louisiana
JOHN G. FARY, Illinois

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
J. WILLIAM STANTON, Ohio
WILLIAM S. BROOMFIELD, Michigan
DAN MARRIOTT, Utah
LYLE WILLIAMS, Ohio
OLYMPIA J. SNOWE, Maine
DANIEL B. CRANE, Illinois
JOHN HILER, Indiana
DAVID MICHAEL STATON, West Virginia
VIN WEBER, Minnesota
HAL DAUB, Nebraska
CHRISTOPHER H. SMITH, New Jersey
ED WEBER, Ohio
DAVID DREIER, California
GUY V. MOLINARI, New York
MARK D. SILJANDER, Michigan

Major L. Clark III, *Staff Director*
Thomas G. Powers, *General Counsel*
Lois Liberty, *Publications Specialist*
Raymond S. Wittig, *Minority Counsel*

Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business

BERKLEY BEDELL, Iowa, *Chairman*

NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
DENNIS E. ECKART, Ohio

SILVIO O. CONTE, Massachusetts
JOHN HILER, Indiana
GUY V. MOLINARI, New York

Marc H. Rosenberg, *Subcommittee Staff Director*
James M. Kulikowski, *Minority Subcommittee Counsel*

LETTER OF TRANSMITTAL

House of Representatives,
Committee on Small Business,
Washington, D.C., June 8, 1982.

Hon. Parren Mitchell,
Chairman, Small Business Committee,
Washington, D.C.

Dear Mr. Chairman: The attached document is a study of the energy loan program administered by the Small Business Administration. This report was prepared at my direction by the staff of the House Small Business Committee's Subcommittee on Energy, Environment and Safety.

The energy loan program was established in 1978 by Public Law 95-315. That statute required that the SBA provide Congress with a detailed annual report on the program, but the agency has failed to do so.

As this Subcommittee intends to hold oversight hearings later this year, our staff was instructed to conduct a study that would provide sufficient background information to allow us to conduct meaningful hearings. The attached document meets that need.

Copies of the attached document have been reviewed by all members of the Subcommittee. They have no objections to its being made public. It must be noted, of course, that this is a staff report only, and is not intended to take the place of a committee report that may follow our upcoming hearings.

The study conducted by the staff of the Energy Subcommittee is the only public report on the SBA energy loan program to date. As such, it will form an important focal point for our further oversight activities. For this reason, I ask that the report be printed as a Committee Print.

Sincerely,

Berkley Bedell,
Chairman, Energy Subcommittee.

AN IMPLEMENTATION STUDY OF THE SBA'S ENERGY LOAN PROGRAM

(Prepared by Marc H. Rosenberg, Subcommittee Staff Director)

ACKNOWLEDGMENTS

Special thanks is given to Neil Kerwin of the faculty of the College of Public and International Affairs of the American University and to Daniel Melnick of the Congressional Research Service at the Library of Congress for their guidance in the design of the questionnaire and the survey methodology used in this study. Invaluable assistance was provided by Clare Radcliffe of the Energy Subcommittee staff and by Hillel Sukenik of the House Information Systems office.

BEST COPY AVAILABLE

CONTENTS

Page
I. Introduction and Background 1
II. Statement of Purpose 3
III. Research Design and Methodology 4
IV. Survey Results 6
    General Findings 6
    Businessmen Like 7(L) 8
    Familiarity Breeds Content 9
    Complaints About SBA 11
    Processing Takes Too Long 12
    General Satisfaction With SBA Services 13
    SBA Terms Are Too Restrictive 17
    SBA Is Too Conservative 18
    Program Needs Improvement 20
V. Findings and Recommendations 21
VI. Appendixes 24

BEST COPY AVAILABLE

I. INTRODUCTION AND BACKGROUND

Public Law 95-315 was enacted in 1978, creating within the Small Business Administration (SBA) a special small business energy loan program, often referred to as the 7(L) program. The purpose of the program is to make available both direct loans and loan guarantees to assist small businesses that are entering the alternative energy industry.

The most common forms of alternative energy today are solar (including photovoltaic electricity, solar hot water heating, solar space heating and cooling, and wind energy), renewable fuels (such as alcohol fuels and biomass conversion), and energy conservation. The SBA program is supposed to focus on small firms that are just entering this field, manufacturing or marketing new energy technologies, and which face higher than normal business risks.

Testimony presented at Congressional hearings prior to passage of the Small Business Energy Loan Act, P.L. 95-315, clearly shows that the SBA historically had resisted providing financial assistance to firms going into the alternative energy business. The agency also has a history of opposing virtually all categorical aid programs that have been assigned to it by the Congress.

Since the 7(L) program was established in 1978, the SBA twice has formally proposed to Congress that the program be abolished by merging it into the agency's general business loan program. The agenecy has issued fewer than 400 loans and loan guarantees under the 7(L) program and has not yet complied with the statutory requirement for production of a detailed annual report on small business energy loans.

Other than a status report on the program, prepared in November 1980 by the SBA's Policy Analysis and Review Division for the agency's internal use only, there has been no formal review of the small business energy loan program. With the program subject to annual authorization and under periodic attack from the agency responsible for its administration, Congressional oversight is appropriate. This study was undertaken in order to provide the Energy, Environment and Safety Subcommittee of the Small Business Committee in the House of Representatives with information that will be useful in conducting a review of the 7(L) program.

II. STATEMENT OF PURPOSE

The small business energy loan program, from its inception, has been somewhat of an unwelcome stepchild at the Small Business Administration. The SBA's lack of enthusiasm for categorical aid programs of any kind, coupled with its historic antipathy towards the alternative energy industry, provide ample reason to wonder how well the agency is fulfilling its Congressional mandate to foster the small business sector of the alternative energy industry.

A detailed annual report to Congress is mandated by P.L. 95-315. Absent that information, it is difficult to evaluate how well the small business energy loan program has met its objective of reducing our nation's consumption of fossil fuels while simultaneously promoting the entry of small businesses into the alternative energy industry.

It is possible, however, to evaluate the implementation of the law by surveying those small businesses that have come into contact with the 7(L) program. Not only would their comments be taken individually and cumulatively, but they also could be evaluated region-by-region.

This study provides the results of a client user/survey of the small business energy loan program. It provides the first public examination of the SBA's 7(L) program.

III. RESEARCH DESIGN AND METHODOLOGY

It is impossible to know who in the small business community investigated the 7(L) program and then chose not to enter it or who attempted to enter it but was rejected by the SBA. To the extent that such information exists, it would have to be dug out of individual files that are scattered across the country in dozens of SBA field offices. Consequently, it was decided to direct this study at those persons who had actually received a direct loan or a loan guarantee under the small business energy loan program.

The SBA's national headquarters maintains a computerized record of all those who have outstanding loans or loan guarantees under the 7(L) program. A printout of the 370 firms that entered the program between October 1, 1978, and August 31, 1981, was provided to the House Small Business Subcommittee on Energy.

Given the relatively small number of program participants, it was decided that the survey would be sent to 100% of those on the list. This eliminated the possibility of errors in sample selection.

A short questionnaire was designed, consisting primarily of multiple choice questions and discreet questions. These were followed by several open-ended questions intended to elicit written comments. See Appendix A for a sample copy of the questionnaire.

The survey was mailed to all 370 program participants in early January 1982. Each questionnaire was accompanied by an individually typed cover letter which was signed by the chairman of the Small Business Subcommittee on Energy, Congressman Berkley Bedell (D-Iowa), and which explained that the information sought would be used by the Subcommittee in the course of its oversight of the 7(L) program. The letter asked that the completed surveys be returned by February 1. See Appendix B for the text of the cover letter.

In early February, those who had not yet returned the questionnaire were sent a follow-up memo, also from the Subcommittee chairman. It reminded them that the information would be helpful to the Subcommittee and offered to provide additional copies of the questionnaire if needed. See Appendix C.

70 completed questionnaires were returned before the first cut-off point. Following the mailing of the reminder letter, an additional 39 replies were received in time to be tabulated. In addition, two individuals sent letters commenting on the program but did not return the questionnaire. Mailings to 58 firms on the SBA printout were returned as undeliverable. Thus, a total of 121 replies were received out of a universe of 312 reachable program participants. The geographic distribution of the survey respondents roughly parallels the distribution of the population of program participants.

IV. SURVEY RESULTS

General Findings

In general, the participants in the small business energy loan program who responded to this survey have a very positive feeling about the 7(L) program. In their written comments, many took special pains to praise the concept behind the program, even when they sometimes had problems with how the program was being run. Their criticisms often seemed more to be directed against government in general rather than against this program in particular.

Two survey questions were intended to provide a direct reading on how the respondents feel about the 7(L) program. Question 9 asked, based upon the respondent's own experience in the program, would he/she recommend it to a friend. Question 10 asked respondents, if they had it to do all over again, would they again participate in the program. The replies to both questions were overwhelmingly favorable.

107 respondents answered Question 9. 88 (82%) said they would recommend the 7(L) program to a friend. 19 (18%) said they would not recommend the SBA program.

104 respondents replied to Question 10. Again, 88 (85%) replied positively, indicating that they would participate in the program again. 16 (15%) said they would not participate in the SBA program a second time.

As Question 9 offered a slightly larger negative response group, it was decided that the 19 questionnaires where respondents said that they would not recommend the 7(L) program to friends would be studied carefully to see if they offered any clues to specific problems within the program. Essentially, this group includes most of those who answered in the negative to Question 10 as well. Of the 19 who said they would not recommend the program, 2 did not answer Question 10, 3 said they would participate again, and 14 said they would not. Only one person who said he would recommend the program to a friend said that he would not do it again himself.

As will be seen in the remainder of this report, the negative replies from Question 9 were analyzed in a variety of different ways to see if any common characteristics could be found. They tended to group around answers that indicated an unhappiness with bureaucracy, such as complaints about SBA rules limiting the use of the loans or that rules were difficult to understand. On most other items, including the length of time it took to get the loan and cooperativeness of SBA personnel, they were all over the lot.

No strong differences between regions became apparent in the course of this study. The small number who are negative about the program appear to be distributed across all the regions. There is at least one negative reply to Question 9 from each of the 9 regions, with no region having more than 6 negative replies, and the negatives never accounting for more than 30% of the respondents in any region.

Businessmen Like 7(L)

For the most part, the businessmen who responded to this survey are enthusiastic about the 7(L) program. 85% said that, based upon their personal experience, they would participate in the program again. 82% said that, if a friend asked whether his/her firm should apply to the program, they would advise applying.

One respondent from the Great Lakes wrote:

> I am a Republican and a businessman. I may not support many Federal programs, but I have to state that I fully support SBA and the 7(L) program....The SBA 7(L) program is simply good business.

Another, from California, said:

> The $250,000 which we received was vital in carrying our company through a very difficult start up period and we are all extremely grateful....I strongly believe that the SBA has been instrumental in helping thousands of small businesses to "get over the hump." This has got to be beneficial to the country as a whole in furthering the economic well-being of all.

A respondent from Virginia echoed the sentiments of many when he wrote:

> Not only should the program be maintained, but it should be expanded. The economy's return on our SBA loan has been many fold.

Particularly among those who wrote letters in addition to completing the survey, this was a recurrent theme. Many participants took this opportunity to point out how many jobs their firms provided, how much tax they paid, etc. Clearly, they are proud of what they are doing and they want the Committee to know that they are putting the 7(L) money to good use.

A number of respondents, in their written comments, noted how crucial the SBA program was to the success of their firms. From around the country, we received comments like these: "Could not have made it without the SBA loan" and "For us it was survival" and "Without the loans we would not be in business."

The 7(L) program, like the SBA's regular lending program, is meant especially to help those who do not otherwise have access to private capital. One respondent in Florida wrote:

> The loan allowed us to expand when no outsiders would capitalize our ideas.

Another, in Northern California, added:

> The loan was crucial to the firm's survival since banks have been totally reluctant to fund firms in the alternative energy field.

Familiarity Breeds Content

While some bankers may have been reluctant to lend to 7(L) participants before they went to the SBA, it appears that the banking community was well aware of the small business energy loan program. When asked where they first heard about the program, the most common response (28%) was that they had heard about it from a banker.

The second most frequent response to Question 1 were that they had learned about it from the trade press (23%) or from a professional or trade association (10%). 14% of the respondents reported that they learned about the program directly from the local SBA field office and 1% from SBA's national headquarters. These figures may be somewhat deceptive, though, as much of the information disseminated by bankers and through the trade groups may have originated at the SBA.

An interesting anomaly that shows up in this study is the fact that of the 16 respondents who were negative about the 7(L) program and who answered this question, none said tha initial information about the program had come from the SBA. This is the only response where they differed significantly from the general population of respondents (See Table 1) and suggests that some of their frustration with the program may stem in part from a lack of familiarity with the SBA and its ways.

TABLE 1

How did you first hear about the SBA energy loan program?

	would advise applying	would not advise	TOTAL
Trade Press	19	4	23
SBA Field Ofc.	14	0	14
SBA National	1	0	1
Prof'l/Trade Assoc.	7	3	10
Friend	12	3	15
Banker	23	4	27
Other*	6	0	6
Miscoded	2	2	4
TOTAL	84	16	100

*NOTE: Small Business Development Centers and Congressional Offices were each cited twice in this category.

One of those who was negative towards the program wrote from New York:

> Right from the beginning to this present date we have had nothing but problems and aggravation from this SBA program....I am as bitter over this situation as could be possible. Your program has damn near ruined my business.

Even some of those who are enthusiastic about the program gave the SBA some lumps. A respondent wrote from Illinois:

> Our overall experience has got to be characterized as positive....If the 7(L) program is to be criticized, it should be because the SBA regulations need to be modified.

Complaints About the SBA

The most frequently heard complaints about the way the 7(L) program is run revolve around how long the application took to be processed, how long it took to actually receive any money, and how much paperwork was involved. Also, there was some frustration over the complexity of the forms and there was considerable negative comment about restrictions the SBA placed on the use of the funds they provided.

From around the nation, we heard complaints about what a writer in California called "a jungle of paperwork." Some complained that much of the information they were required to provide seemed to have nothing to do with the loans they were seeking, and several suggested that the forms were so full of legal/governmental argot that a glossary of terms should be provided. These feelings were summed up by a writer from New England who endorsed the program but then went on to note:

> ...typical government paperwork that was not readily understood. After moderate interpretation the forms were filled out and completed to the satisfaction of the SBA....In general, government and their forms are overly obtuse and don't appear to be directed toward obtaining pertinent information.

Several respondents noted that they had submitted more than an inch of forms in the course of applying to the SBA. Comments on many of the questionnaires indicate that bankers, accountants, lawyers and others were enlisted by program participants to help them fill out all the forms.

Processing Takes Too Long

Perhaps related to some of the complaints about the amount of paperwork is the large number of respondents who had negative comments about how long it took for the SBA to process the papers and to release money to them. A firm in Virginia, which otherwise was very positive about the program, said, "Progress was glacial; nothing prompt." And a correspondent in the Rocky Mountains added, "It takes too long to get the loan -- very discouraging."

Most of the respondents reported that it took between 3 and 6 months from the time they first applied to the time they received final approval from SBA. A few said they got approval within 1 or 2 months, but there also were some who reported waited as long as 17 or 18 months.

There does not appear to be any significant difference in the distribution of waiting times between those who are favorably disposed towards the program and those who are not.

Similarly, the turn-around times do not seem to vary greatly from one region to another.

It is interesting to note that several of those who indicated that they would recommend the 7(L) program to a friend added notes like this one from Minnesota: "...provided he isn't in a hurry or in a great need." This raises an important point mentioned by several respondents. They wanted to stress to the Committee the need for prompter turn-around on their applications. A Californian wrote:

> The time delay involved in a direct loan creates extreme hardship....Business and market climate can change significantly over a year for a small business and the long loan processing period can be debilitating.

Several writers from different parts of the country all offered a similar suggestion. They recommend more counseling from SBA before the applicant's paperwork is submitted, so the businessman who is new to the SBA does not lose a lot of time having to resubmit forms or furnishing supplemental data.

The respondents' mixed feelings about the value of the 7(L) program and the frustration of dealing with the government are summed up in this comment from a firm in the Upper Midwest: "Using the program requires patience and perseverance, but it is worth the effort."

General Satisfaction with SBA Services

Question 11 presented a series of questions designed to identify how the respondents felt about specific types of contacts they had had with SBA personnel. Some of the findings here are interesting.

82% of all respondents answered affirmatively to the

BEST COPY AVAILABLE

statement, "Officials at SBA were helpful to me when I applied." Even among those who would advise others not to apply to the program, 62.5% responded "yes" to this question. No region got less than a 63% affirmative response.

Criticism rose slightly on the next question, which asked if the local SBA office had enough information on hand explaining the 7(L) program. 61% of the total population said their SBA office had enough information, and 53% of those in the negative subset also said enough information was available. Moreover, comments on some of the questionnaires suggest that these figures will improve as the program grows out of its infancy. Several writers noted that they were the first applicants in their areas and that they had to inform the local SBA office about the program.

The next question asked if the material provided by SBA gave all the information the applicant needed to know about the 7(L) program. Table 2 shows the sharp differences of opinion that exist on this question. While 57% of those who would recommend participation in the program felt the information provided was adequate, 65% of those with negative feelings about the program felt the information was inadequate.

TABLE 2

SBA-provided material told all that I needed to know

	would advise applying	would not advise	TOTAL
YES	47	6	53
NO	36	11	47
TOTAL	83	17	100

Results were less clear for the question of whether or not SBA officials helped when problems regarding the loan or guarantee arose. 23% of those who would recommend the program to a friend said that SBA officials had not helped, and 44% of those who had negative recommendations similarly said they had not been helped. The low response rate for this question and various written comments suggest, however, that the wording of this question was not very good

The next question yielded much clearer results. Asked whether or not SBA rules made it hard to use the funds, 71% of those who would recommend the program answered negetively. On the other hand, 65% of those who were negative about the program said that SBA rules had interfered with use of the funds. See Table 3.

TABLE 3

SBA rules made it hard to use the loan or guarantee

	would advise applying	would not advise	TOTAL
YES	24	11	35
NO	60	6	66
TOTAL	84	17	101

A similar reversal of opinion occurs on the final question in this set. The questionnaire asked if SBA procedures were adequately explained to program participants. 69% of those who would recommend the program answered "yes" to this question, but 62.5% of those with negative feelings answered "no". See Table 4.

TABLE 4

SBA procedures were well explained

	would advise applying	would not advise	TOTAL
YES	55	6	61
NO	25	10	35
TOTAL	80	16	96

SBA Terms Are Too Restrictive

As the responses to these last two questions show, program participants who have negative feelings about the 7(L) program seemed to have a disproportionate amount of bad experiences with SBA rules and regulations regarding use of the funds they obtained through the program. However, a reading of the written comments submitted by the respondents shows that dissatisfaction on this point is broader than those numbers suggest. Many writers seemed particularly irked by three SBA requirements in particular.

First, a number of respondents complained about the funds being restricted so that no more than 25% of the money could be used for working capital. Several noted that they came to SBA for help in going from R&D to marketing of new products and that they needed greater flexibility in using the money for advertising and promotion.

Second, many respondents complained about the SBA's policy of making funds available only as itemized reimbursements after the borrower could show that the money had been spent as intended. Several felt this was counter-productive, forcing them to borrow twice for the same purpose. A firm in Iowa wrote:

> Once we had made the commitment to build and started construction (with SBA approval) the SBA would not distribute funds until the structure was complete. If not for interim financing, this SBA retraction would have meant bankruptcy.

A company in California recounted similar problems and returned to a familiar theme:

> Once the loan was funded, we had a terrible time receiving funds. It would take 3-4 weeks to get the checks and it seemed we were documenting all over again why we needed the money. Way too much paperwork.

Third,we had one respondent who said his firm had received the full amount of the loan from the SBA at prime interest rates and then was required to place it in a restricted savings account, earning passbook interest rates and with cash being disbursed by the bank only on a reimbursement basis. This created the double indignity of having the restrictions on the availability of the funds plus suffering from bad cash management.

A respondent in the South complained:

> There was this connotation that we were not to be trusted with the money once it was loaned. (The bank monitoring the account even though it was amply secured.) What we are trying to say is that there needs to be more flexibility on the part of the SBA....If the SBA is small business oriented, then help the small businessman.

SBA Is Too Conservative

From this general frustration with SBA and its ways of doing business, we can move to a few comments specifically referring to the energy loan program. Several writers were unhappy because the 7(L) program had been promoted as a vehicle for encouraging small firms to get into a new, high technology field, yet the SBA seems to be overly cautious in awarding loans and guarantees. Several writers felt the requirements for personal collateral being posted by the borrowers were too stringent and others felt the SBA was too reluctant to underwrite new technologies.

A writer in Arkansas said:

> We feel honestly that the Direct Energy Loan Program did not reach the majority of people it was intended to help, people with a slightly different (then deemed unorthodox) method of energy conservation, willing to try something new, not just storm windows and doors.

Another respondent, this one in Colorado, was more to the point. He wrote:

> From the outset SBA loan officers treated the energy loan like any other loan arrangement despite the high risk of entering the solar marketplace compared to a conventional established industry. SBA required that I guarantee the direct loan with my home as collateral....In effect, I have taken a great risk in solar rather than the government.

Several writers said that they received little or no help from SBA after they received the energy loan or loan guarantee. They felt that SBA should have been aware of their need for counseling, because they had sought the money to enter new business ventures.

One respondent complained that he had repeatedly asked for post-award counseling and had never received a response. Several others expressed the feeling that SBA should behave more like a partner and less like a banker. And many added notes expressing their disappointment at the federal government's recent and sudden change in direction, moving away from its previous commitment to promote the use of alternative energy.

Program Needs Improvement

The last set of discreet questions in the survey was designed to find out if 7(L) program participants felt that the SBA actually supported the program. For the most part, they felt that the SBA does support the program, although they seemed to feel that SBA support was greater at the local level than at the national. There also was very strong agreement that the program could stand improvement.

Asked if SBA officials strongly support the 7(L) program, 57 out of 92 respondents (62%) answered "yes". Only 72 respondents answered the question of whether or not they felt that local SBA officials working on 7(L) are well-supported by SBA's national management; 46% said "yes" and 54% said "no".

On one point there was clear agreement. 74% of all respondents agreed with the questionnaire's statement that improvements are needed in the way the small business energy loan program is administered. Reading this in the context of the other data gathered in this survey, though, produces the feeling that complaints about policy and procedures are much stronger and more prevalent than those about operational details.

V. FINDINGS AND RECOMMENDATIONS

From the information gathered in this survey, certain conclusions are fairly obvious. Those who are in the small business energy loan program generally like it, and those program participants who do not like it generally appear to be most frustrated with the paperwork and regulations that have been attached to the program by the SBA.

The Small Business Administration itself is seen as being supportive of the program, although some of the administrative requirements the agency has imposed may tend to get in the way of the program being as effective as it could be. The chief complaints about the SBA's handling of the 7(L) program relate to basic policies and regulations, rather than to any major administrative shortcomings.

There do not appear to be any significant variations in survey results from one administrative region to another. On virtually every question, the replies were fairly evenly distributed across the whole country, suggesting that central management of the program is adequate.

Based upon the data gathered in this survey, the following recommendations for improvement of the small business energy loan program are made:

1. The paperwork burden must be reduced. Criticism about the sheer volume of paperwork, how long it takes to complete, and how complicated the forms are constitute the most common group of complaints about the 7(L) program. Respondents' comments about the difficulty of understanding the language used in

some of the forms are particularly disturbing, as this particular problem is so easily remedied. Efforts should be undertaken immediately to simplify both the forms and the language used in them.

2. Provide applicants with better information up front. Those who were unhappy with the program were strongest in their criticism of the information provided to them by the SBA. The survey results suggest that better informational brochures about the program would be helpful, as would be better counseling of new applicants regarding what to expect from the program.

3. There should be fewer restrictions on use of the funds made available by SBA. Too many restrictions are being placed on the funds being made available to entrepreneurs starting up new businesses in a new field. Each loan is secured with ample collateral, so the borrowers should be allowed greater freedom in using their business judgment in the use and management of the funds.

4. More post-award counseling is needed. Rather than locking in rigid sets of terms and conditions for the use of funds before the loans are made, the SBA should provide better counseling for firms after they have entered the program. This would enhance the prospects for the success of the firm and repayment of the loan as well as providing the participant with greater flexibility.

5. The SBA should take more risks. With many reported instances of the SBA imposing very steep requirements for collateral, limiting the use of the loans, and shying away from the more exotic of the new energy technologies, the agency appears to be less than aggressive in meeting its legislative mandate to help propel small businesses into the vanguard of an emerging new industry. Complaints about energy loans being treated like all other SBA loans suggest that the message still has not sunk in completely that the 7(L) program is supposed to be different. P.L. 95-315 requires the SBA to take more risks in lending under this program, and the agency should do more to foster the special character of this program.

Finally, it should be noted that 58 firms the SBA says are in the 7(L) program are unaccounted for. The House Small Business Subcommittee on Energy has asked the SBA to advise them as to what has become of these firms. That information may provide the basis for further analysis of the small business energy loan program.

Appendix A Sample Questionnaire

Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Id. No. __ __ __ (1-3)

QUESTIONNAIRE
ON THE
SMALL BUSINESS ADMINISTRATION'S
ENERGY LOAN PROGRAM

The House Small Business Committee plans to hold oversight hearings on the operation of the Small Business Administration's Energy Loan Program. As a participant in the program, we are relying on you to provide us with information and insights about how the program is working. Please help us by answering the questions on the next two pages and using the back page to give us your ideas about the effectiveness of the program. In the current period of budgetary stringency, it is important to make sure that government programs are responsive to the needs of those who use them. Please feel free to share your experiences regarding the SBA Energy Loan program with us.

The staff of the subcommittee will prepare a report based on your answers. If you provide an address, we will send you a copy.

Person Completing this Questionnaire ________________________

Company Name ____________________________________

Street Address ___________________________________

City and State ___________________________________

Zip Code __ __ __ __ __ (4-8)

Office Telephone Area Code: (__ __ __) Phone Number: __ __ __ - __ __ __ __

BEST COPY AVAILABLE

Q1. [illegible] about the SBA energy loan program? (Circle the number next to your answer.)

1. I READ ABOUT IT IN THE TRADE PRESS
2. A PERSON AT THE SBA FIELD OFFICE TOLD ME ABOUT IT
3. A PERSON AT THE SBA NATIONAL HEADQUARTERS TOLD ME ABOUT IT
4. A PROFESSIONAL OR TRADE ASSOCIATION SENT ME INFORMATION ABOUT IT
5. I WAS TOLD ABOUT IT BY A FRIEND (9)
6. I WAS TOLD ABOUT IT BY A BANKER
7. OTHER (Please explain) ______________________ ___ ___ (10-11)

Q2. Did you receive a loan or a loan guarantee? (Circle the number next to your answer.) (12)

1. LOAN
2. LOAN GUARANTEE
3. NEITHER
4. BOTH

Q3. Do you have more than one loan or loan guarantee? (Circle the number next to your answer.) (13)

1. MORE THAN ONE
2. ONE

Q4. When did you first apply for your loan or loan guarantee?

MONTH ______________ YEAR ________ ___ ___ ___ ___ (14-17)

Q5. When did you receive final approval from the SBA?

MONTH ______________ YEAR ________ ___ ___ ___ ___ (18-21)

Q6. How much did you apply for originally? (22-28)

$ ___, ___ ___ ___, ___ ___ ___ .00

Q7. How much was approved by SBA? (29-35)

$ ___, ___ ___ ___, ___ ___ ___ .00

Q8. To date, how much have you used? (36-42)

$ ___, ___ ___ ___, ___ ___ ___ .00

Q9. Based on your own experience with this program, if a friend asked you whether his firm should apply to participate, what would you advise him to do? (Circle the number next to your answer.) (43)

1. I WOULD ADVISE HIM TO APPLY
2. I WOULD ADVISE HIM NOT TO APPLY

BEST COPY AVAILABLE

Q10. Based on your experience with this program, if you had it to do over again, what would your own decision be? (Circle the number next to your answer.)

1. I WOULD PARTICIPATE IN THE PROGRAM
2. I WOULD NOT PARTICIATE IN THE PROGRAM (44)

Q11. How would you rate the work of the SBA in providing the loan or loan guarentee to your business? Do the following statements describe the way you were served by SBA's officials?

	Does it describe the way yo were served? Circle your answer.	
1. Officials at SBA were very helpful to me when I applied....................................	YES	NO
2. Officials at the local SBA office did not have enough information about the loan program.........	YES	NO
3. The material provided to me by the SBA told me all that I needed to know about the program...........	YES	NO
4. SBA officials did not help me when I had a problem regarding the loan or loan guarantee..............	YES	NO
5. SBA rules made it hard for me to use my loan or loan guarantee....................................	YES	NO
6. SBA procedures were fully and expertly explained so that I could easily use my loan or loan guarantee..	YES	NO

Q12. From your dealings with the SBA we would like your assessment of the agency's support for the loan program. Do you agree or disagree with the following statements regarding the agency's activities?

	Do you Agree or Disagree? Circle your Answer.		
1. SBA officials strongly support this program.......	AGREE	DISAGREE	(5
2. Improvements are needed in the way the program is administered..................................	AGREE	DISAGREE	(5
3. Local SBA officials working on the Energy Loan and Loan Guarentee program are well supported by SBA's national management......................	AGREE	DISAGREE	(5

BEST COPY AVAILABLE

Q13. Please give a brief description of the activity that is being supported by your SBA energy loan or loan guarantee?

Q14. Have you had any problems applying for and using your SBA energy loan or loan guarantee? Were you fairly, courteously and promptly helped?

Q15. Do you have any suggestions regarding ways the program could be improved?

THANK YOU VERY MUCH FOR YOUR HELP.

Please return the completed questionnaire in the envelope provided or mail it to:

Hon. Berkley Bedell, Chairman
Small Business Subcommittee on Energy,
U.S. House of Representatives,
2440 Rayburn Building
Washington, D.C. 20515

BEST COPY AVAILABLE

APPENDIX B.—LETTER FROM JAMES SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAY 18 1982

Honorable Berkley Bedell
Chairman, Subcommittee on Energy,
Environment and Safety Issues
Affecting Small Business
Committee on Small Business
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in reply to your letter dated April 6, 1982, enclosing photocopied envelopes which were returned to your office as a result of a mailing your office made from a Small Business Administration computer listing to energy loan recipients.

We are enclosing a list of the firms taken from the envelopes and have filled in the corrected address or otherwise stated the status of the loan. To summarize, of the 58 returned envelopes, we found the following:

21 - Out of business.
11 - Loans cancelled.
18 - Loans current with corrected addresses furnished.
2 - In liquidation but functioning. Corrected addresses furnished.
1 - Delinquent with corrected address.
1 - Address you sent to is current by our records.
4 - Not on the computer listing we sent you and no record of loans.

We hope this information is sufficient for your needs. If you have further questions, please let me know.

Sincerely,

James C. Sanders
Administrator

Enclosures

Business Name and Corrected Address	Status
Robert Lietz Econo Heat 16 East View Drivet Hartford, Connecticut 06118	In process of going into liquidation. Assets transferred to Robert Lietz home.
Consumers Energy Saving Corp., Inc.	Out of business
Forest Fuels, Inc. Water Street P.O. Box 547 Marlborough, New Hampshire 03455	Loan current - correct address shown.
New York City Office of Economic Development	Not on SBA computer listing previously furnished. No record SBA loan ever existed.
Thermogen Systems, Inc. P.O. Box 541M Bayshore, New York 11706	Loan current - correct address shown.
Jack Wilson Welty F Roosevelt Margin 142 Edif Rod Rodder Hato Key, PR 00918	Our field office records show address was correct. We do not know why envelope was returned.
Quality Solar Systems, Inc.	Loan cancelled
Northstar Energy Systems Rt. 211 East Scotchtown, New York 10940	Loan current - correct address shown.
Econ Systems, Inc.	Loan cancelled
Jackson Solar Products, Inc.	Loan cancelled
Comfort Systems, Inc.	Loan cancelled
Apt Insulation, Inc.	Out of business
S C D Company	Loan cancelled
Rollins, Incorporated P.O. Box 308 435B Main Street Stroudsburg, Pennsylvania 18360	Loan current - correct address shown.

Intertechnology Solar Corp.	Out of business
Capitol Hill News Service	Not on SBA computer listing previously furnished. No record SBA loan ever existed.
James McBain	Not on SBA computer listing previously furnished. No record SBA loan ever existed.
Building Operations Management, Inc. 407 Welshwood Drive Nashville, Tennessee 37201	Loan current - correct address shown.
Energy Development Corp.	Out of business
Sunway Consultants, Inc.	Out of business
K & C Energy Efficient Systems	Loan cancelled
Solar Dynamics, Inc.	Out of business
Fort Myers Energy Developers	Loan cancelled
The Woodshed P.O. Box 99 Lumberton, North Carolina 28358	Loan current - correct address shown.
Sun Store	Out of business
Sun Store (Duplicate envelope)	Out of business
Smokeys Wood Products, Inc. 777 Benjamin Road Easly, South Carolina 29640	Loan current - correct address shown.
American Metal Stamping Corp.	Not on SBA computer listing. No record SBA loan ever existed.
Ohio Power Mgt System, Inc.	Out of business
Hearthstone, Ltd.	Out of business
The Energy Shed	Out of business

Tuf-Seal Corporation S-82 West 19246 Apollo Drive Muskego, Wisconsin 53150	Loan current - correct address shown.
Energy Shed	Loan cancelled
Energy Instrument Systems, Inc. 5265 Sunbelt Corpus Christie, Texas 78407	Loan current - correct address shown.
Solar Shade Industries 620 West 26th Street Kansas City, Missouri 64108	Loan current - correct address shown.
Tios Corporation P.O. Box 8101 Salt Lake City, Utah 84108	Delinquent
Sunset Fireplaces of Pierre	Out of business
Clayts Coal Sales, Inc. P.O. Box 145 Ashland, Montana 59003	Loan current - correct address shown.
Four Corners Solar King P. O. Box 100 BODO Industrial Park Durango, Colorado 81301	Loan current - correct address shown.
Phillips Control Corporation	Out of business
E.C.S., Inc. 2714 West Main Ave. Fargo, North Dakota 58103	Loan current - correct address shown.
The Energy Shed 5415 Belmont Road Grand Forks, North Dakota 58201	Loan current - correct address shown.
Northland Woodburners, Inc.	Out of business
Sun-wise of Helena 1052 Helena Avenue Helena, Montana 59601	Loan current - correct address shown.
Bear Blanket Insulation and Siding	Out of business
Schneider Livet Translator Co. 3961 American River Drive Sacramento, California 95825	Loan current - correct address shown.

Energy House, Inc. 9183 Calvin Avenue Chatsworth, California 91311	Loan current - correct address shown.
D & S Plumbing and Solar 44108 Standridge Lancaster, California 93534	In liquidation but functioning.
Aztec Energy Associates	Loan cancelled
Helix Solar Systems	Out of business
Culpepper and Assoc. of California, Inc.	Out of business
Great Western Solar Corp.	Out of business
The Figueroa Insulation and Energy	Loan cancelled
Solar Energy Corp of America	Out of business
Engineered Air Conditioning	Loan cancelled
Sun-Life & G. Howks Solar Systems, Inc.	Out of business
R.T. Barnes Co.	Out of business
Spokane Solar, Inc. 727 East Francis Spokane, Washington 99207	Loan current - correct address shown.

APPENDIX C.—LETTERS FROM HON. SAM GEJDENSON (2)

SAM GEJDENSON
2D DISTRICT
CONNECTICUT

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
FOREIGN AFFAIRS
INTERIOR

August 2, 1982

Honorable Berkley Bedell, Chairman
Small Business Subcommittee on Energy, Environment
And Safety Issues Affecting Small Business
B363 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing in regard to your August 5th Subcommittee oversight hearing on the Small Business Administration's 7(L) program, the Small Business Energy Loan Program. I thought you might be interested in an update of my January 25, 1982 letter which outlines problems that several alternative energy companies in Eastern Connecticut encountered with the SBA 7(L) program. This information may be useful for the hearing record.

Since my January 25th correspondence, no significant developments have occurred that would allow small energy-related businesses to obtain SBA 7(L) program loans. One firm in question, however, still has not submitted an application for a SBA loan due to the SBA's insistence that funding is no longer available for the 7(L) program. This is an unfortunate circumstance, because the firm recently received over 1700 inquiries for establishing national dealerships. According to the president of the company, they need working capital for expansion now more than ever. Without SBA assistance, the firm can not have the staff nor financial backing to assess all 1700 inquiries or undertake the process of establishing national dealerships. The president did state that the SBA did provide adequate counseling and was cordial in their discussions.

This case is illustrative of the problems faced by many small energy-related businesses. There are other companies throughout Eastern Connecticut that perceive tremendous opportunities in the alternative energy field but are prevented from expansion due to the lack of availability of both private and public business loans.

On a closing note, I think your Committee report, "An Implementation Study of the SBA's Energy Loan Program," provides an excellent assessment of the achievements and problems of the 7(L) program. I intend to forward this document to my constituent alternative energy businesses in hopes of retaining their faith in the efficacy of this program.

Thank you for the opportunity to express these comments.

Sincerely,

Sam Gejdenson

SAM GEJDENSON
Member of Congress

SAM GEJDENSON
2D DISTRICT
CONNECTICUT

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
FOREIGN AFFAIRS
INTERIOR

January 25, 1982

Honorable Berkley Bedell
Chairman, Subcommittee on Energy, Environment,
Safety, and Issues Affecting Small Business
Committee on Small Business
B363 Rayburn HOB
Washington, D.C. 20515

Dear Berkley:

As the second session of the 97th Congress begins, I would like to bring to your attention the dismal situation faced by small energy-related businesses. At a time when the United States is making significant gains towards energy independence, I find it particularly distressing that small companies in the energy conservation industry are having difficulty in obtaining loans.

This point was made clear to me after several small businesses in my district informed me that they were unable to obtain low-interest loans for their firms. In particular, the Small Business Energy Loan Program, administered by the Small Business Administration, has told potential applicants that applications for loans were no longer being accepted, or that the loan fund has already been committed.

The Small Business Energy Loan Program was designed to assist firms involved in energy conservation industries. In my district, for example, there is a minority owned business with sixteen employees that produces energy-conserving window covers, quilts, screens, shades, and films. They have repeatedly been denied access to the SBA Energy Loan Program. Unfortunately, Connecticut state programs are not designed to assist companies of this size. Without the effective participation of the SBA, this company like many others, will be unable to train personnel, expand product lines, or diversify into relevant energy conserving technologies.

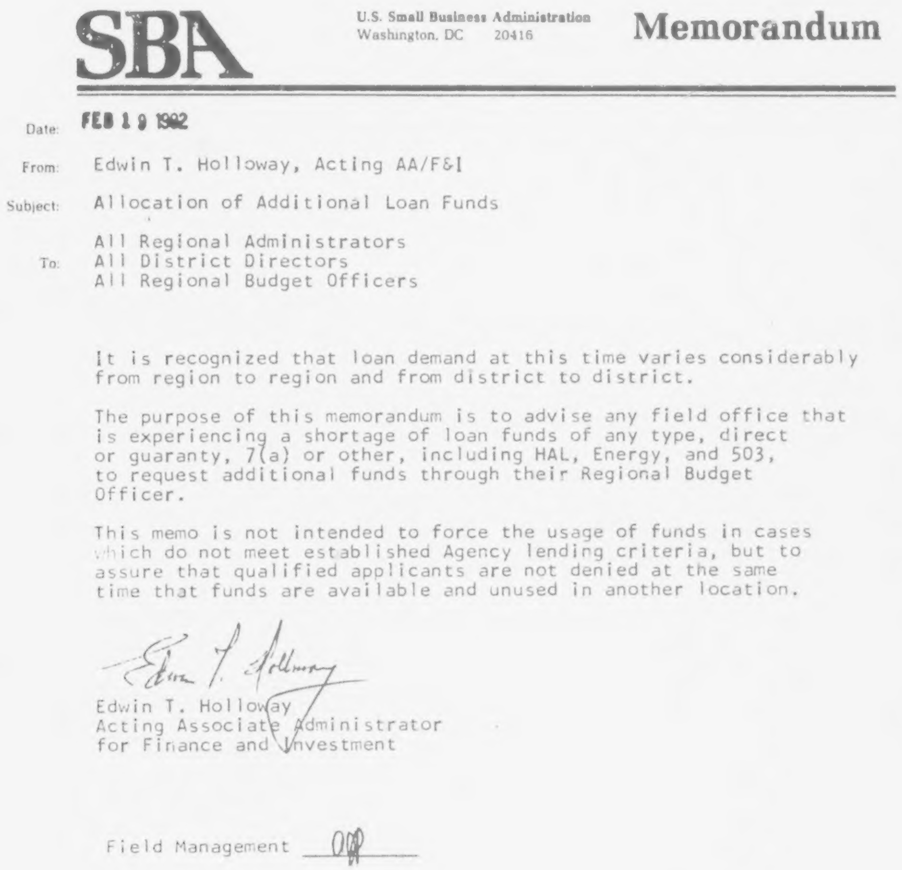
Therefore, I am requesting that your Subcommittee hold oversight hearings pertaining to the Small Business Energy Loan Program. I believe that this hearing will sufficiently air the deficiencies in the SBA Energy Loan Program and highlight the need to provide adequate funding for this program.

I appreciate your consideration of this request. My staff member, Perry Pockros, will gladly assist your Subcommittee staff in providing the names of the affected companies in my district.

With Best Regards,

SAM GEJDENSON
Member of Congress

APPENDIX D.—SBA MEMOS TO FIELD OFFICES, DATED FEBRUARY 19, 1982 AND MAY 7, 1982



SBA U.S. Small Business Administration
Washington, DC 20416 **Memorandum**

Date: FEB 19 1982

From: Edwin T. Holloway, Acting AA/F&I

Subject: Allocation of Additional Loan Funds

To: All Regional Administrators
All District Directors
All Regional Budget Officers

It is recognized that loan demand at this time varies considerably from region to region and from district to district.

The purpose of this memorandum is to advise any field office that is experiencing a shortage of loan funds of any type, direct or guaranty, 7(a) or other, including HAL, Energy, and 503, to request additional funds through their Regional Budget Officer.

This memo is not intended to force the usage of funds in cases which do not meet established Agency lending criteria, but to assure that qualified applicants are not denied at the same time that funds are available and unused in another location.

Edwin T. Holloway
Acting Associate Administrator
for Finance and Investment

Field Management ______

AA/F&I

Inquiries and Direct Loan Availability

All Regional Administrators
All District Directors
All Branch Managers

MAY 7 1982

All field offices were recently requested to submit "Daily Register of Loan Inquiries" (SBA Form 280) for April 29, 1982, to Central Office. Of the required submissions, some were incomplete, some were submitted late, and some were not submitted at all. This exercise has demonstrated that inquiry information is not being handled in accordance with existing instructions in many places. The data collected on SBA Form 280 is required by section 10(e) of the Small Business Act and must be maintained in accordance with SOP instructions.

In addition, the House Small Business Committee staff contacted five field offices by telephone, inquiring about the availability of direct loan funds. All five field offices reportedly told the inquirer there were long waiting lists for direct loans and/or that demand for such loan funds far exceeds the supply. In our memorandum of February 19, 1982, we advised field offices that qualified applicants should not be discouraged, and if additional funds are needed, they should be requested through Regional Budget Officers. We cannot sit with unused funds and, at the same time, tell the public we do not have money.

In order that we may better assess the national direct loan availability situation, each regional office should submit a report to the Director, Office of Field Services, Central Office, showing the number and dollar amount of direct loans on each District Chron List within its region at COB April 30, 1982. If no chron list is being maintained in an indivdual office, that fact should be reported. This report must be submitted to reach the Director no later than COB May 14, 1982. MTS may be used for this report.

/signed/ Edwin T. Holloway
Edwin T. Holloway
Associate Administrator
for Finance and Investment

BEST COPY AVAILABLE

1. ~~Mr. Hertzberg~~
2. File

SMALL BUSINESS ADMINISTRATION
OFFICE OF ADMINISTRATIVE SERVICES
WASHINGTON, D. C.

CIR-843 SBA CIRCULAR MAY 7, 1982

Items:

1. Loan Funds
2. Small Business Lending Company Approval
3. Non-Bank Lending Company Approvals
4. Misprinted SBA Rules and Regulations Document

843-1 Loan Funds

It is recognized that loan demand varies considerably from region to region and from district to district. Any field office experiencing a shortage of loan funds of any type, direct or guaranty, 7(a) or other, including HAL, Energy, and 503, should request additional funds through their Regional Budget office. This is not intended to force the use of funds in cases which do not meet established Agency lending criteria, but to assure that qualified applicants are not denied at the same time that funds are available and unused in another office.

843-2 Small Business Lending Company Approval

The Small Business Administration approved the Application for Eligibility Determination as a Small Business Lending Company (SBLC) under Section 120.4(b) of the Regulations of the following company on the date indicated:

April 5, 1982 - CREATIVE CREDIT SERVICES, INC., (SBLC No. 01/B-0026) 260 Long Ridge Road, Stamford, Connecticut 06902. This SBLC will operate on a nationwide basis through seven (7) regional offices. It has paid-in capital and paid-in surplus of $5,000,000. Mr. David D. Eksdahl is the SBLC's President.

The SBA Forms 750 and 1080 were executed on 4/05/82, and these Loan Guaranty Agreements will be retained by the Non-Bank Lenders Section, of the Office of Lender Relations and Certification, Washington, D. C.

843-3 Non-Bank Lender Approvals

The Small Business Administration approved as loan participants (Non-Bank Lenders) under Section 120.4(a) of the Regulations the following lending institutions on the dates indicated:

April 5, 1982 - FIRST CAPITAL CALIFORNIA BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATION (FIRST CAPITAL CALBIDCO)
2185 Union Street, San Francisco, California 94123. Mr. Michael Roy is the company's President.

APPENDIX E.—SBA MEMO TO FIELD OFFICES, DATED AUGUST 13, 1982

SBA
U.S. Small Business Administration Washington, DC 20416

Honorable Berkley Bedell
Chairman
Subcommittee on Energy, Environment
and Safety Issues Affecting Small Business
Committee on Small Business
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Transmitted herewith is a copy of a memorandum prepared by our Office of Finance and Investment regarding the energy loan program. This memorandum is furnished to you pursuant to your request at the hearing on August 5, 1982, and was sent to the field offices on August 13, 1982.

Sincerely,

Robert W. Santy

Robert W. Santy
Director
Office of Congressional Relations

Enclosure

SBA
U.S. Small Business Administration
Washington, DC 20416

Memorandum

Date: AUG 13 1982

From: Edwin T. Holloway, AA/F&I

Subject: Energy Loan Program

To: All Regional Administrators
District Directors
Branch Managers

Over the past several months, the Central office has communicated by memoranda, MTS message, circular item, and at National and Regional meetings, the availability of direct loan funds in all programs for qualified applicants. At a recent hearing before the House Subcommittee on Energy, Environment and Safety Issues Affecting Small Business, the Chairman and subcommittee members expressed deep concern over the fact that only $1 million of loan funds have been used of the $25 million available for the making of direct and guaranty loans under our Energy Loan Program [7(a)(12) formerly 7(l)].

The purpose of this memorandum is to once again remind you that substantial funds remain available for both guaranty and direct energy loans, and to point out the importance of the program both to the nation and small business in light of the energy problems that continue to face us all.

Nothing herein is intended to suggest that any such loans are to be made in cases where the applicant does not meet the special credit and eligibility criteria established for the Energy Program, or where a reasonable chance for success is not present.

While there has been improvement, we continue to receive reports that some applicants are being advised that no funds, or only limited funds, are available for this program. This is not the case, and all loan officers must be made well aware of the availability of funds and the need to provide accurate information in responding to inquiries.

Charles R. Hertzberg
for Edwin T. Holloway
Associate Administrator
for Financial Assistance

APPENDIX F.—SBA INTERNAL REPORT ON THE ENERGY LOAN PROGRAM, DATED NOVEMBER 1980

REPORT ON THE SMALL BUSINESS ENERGY LOAN PROGRAM

Policy Analysis and Review Division

November 1980

Executive Summary

A large sample of loan officer's reports on applicants for funds under SBA's Energy Loan program shows:

- the average size of the loans was $144,000, had a maturity of 9 years, and was used to purchase machinery and equipment or to finance working capital requirements.
- thirty-five percent of the loans were for energy conservation (primarily insulation) purposes; 31 percent for solar energy purposes, 17 percent for biomass (wood and alcohol fuels).
- half the loans supported firms wholly or partially in the manufacturing sector.
- less than 15 percent of the loans went to finance "new" products or processes.
- the loans are heavily concentrated in Regions VIII, IX, V, IV, and I.
- California (31), Colorado (20), Kansas and Minnesota (12), and Florida (10) led the individual states.

Implications

So far the energy loan program has not been used to:

- support small businesses in all the technologies enumerated in the legislation.
- support small business at the frontiers of new product and process development.
- provide energy loans evenly across the country.

Introduction and Findings

This report is based on information extracted from a sample of loan officer's reports on 229 applications for energy loans under SBA's 7(1) program. These applications were filed between January 1979 and May 1980.

The sample is very large relative to the universe of 7(1) loans made during the period; the 229 loans were for $31.446 million; the universe contains 242 loans for 31.337 million. The average size of the loans in the sample is $144,000 per loan, the average maturity of these loans is 9 years. There are 155 direct loans and 74 guaranty loans in the sample.

The proceeds of the loans were used by the applicants mainly for the purchase of machinery and equipment, or to provide working capital (see Table I).

The individual products that received the most loans were: solar energy (70); energy conservation devices, (80); wood or wood waste conversion (28); alcohol-gasohol (11). For further detail see Table II.

Of all the businesses and industries participating in this program 128 were in manufacturing, 37 in wholesaling, and 98 in retailing (see Table IV).

Out of the total of 229 loans, only 30 were made to finance new products or processes.

The distribution of loans was heavily concentrated in Regions I, IV, V, VIII and IX. The state distribution shows a large percentage of the loans going to firms in California, Colorado, Kansas, Florida, and Minnesota (Table V).

Regional Differences

Of the 26 loans made in Region I, most of the firms were involved in either manufacturing or retailing; the majority of the loans in the region were for solar energy equipment and for insolation.

Regions II and III also show the largest portion of their 18 loans to be for solar equipment.

Region IV shows a wide distribution of its 25 loans to manufacturing and retailing institutions.

Region V made 40 loans, mostly in the following areas: Solar equipment, insolation, wood burning stoves, and Alcohol-Gasohol production.

Regions VI and VII account for only 24 loans between them. The majority of these loans were for energy conservation devices.

Regions VII and IX contain 37 percent of all the loans in this sample. Region VIII loans were divided between solar equipment, energy conservation devices, and wood burning stoves. In Region IX over half of the loans are for solar energy equipment.

Region X made only 12 loans; three of them are for a business involved with cellulose insulation.

For more detailed information on regional aspects of the 7(1) program refer to Table VI.

Products

Seventy loans were made for solar energy products; 41 of these were Regions VIII and IX; the average solar loan was $152,000. Fourteen loans were made in relation to firms involved with cellulose insulation.

Twenty-eight loans were made to firms per involved with wood and wood waste conversion for an average of $132,000/loan. Eleven loans for alcohol-gasohol related products for averaged $208,000/per loan. For more detailed information on all product categories refer to Table VII.

TABLE I

Distribution of Loans by Use of Proceeds

Use	No. of Loans
Land	8
Construction or Building	22
Machinery and Equipment	71
Debt	30
Working Capital	45
Other	73

TABLE II

Distribution of Loans By Product*

Product	No. of Loans
Solar Energy Products (product nos. 11, 12, 13)	70
Cellulose Insulation	14
Other Insulation	28
Energy Conservation Devices (product nos. 30, 33, 34, 35, 36, 37, 38, 39)	38
Wood or Wood Waste Conversion	28
Alcohol-Gasohol Products	11
Industrial Cogeneration (product nos. 51, 52)	5
Service Industries	8
Miscellaneous products that are not listed elsewhere (product nos. 91, 92, 93, 94, 99)	27

*See Table III for individual product codes

BEST COPY AVAILABLE

TABLE III

List of Product Codes Used in this Study

(1) Solar thermal energy equipment which is either of the active or of the passive type.

  (11) Solar Water Heating Equipment

  (12) Solar Space Heating Equipment

  (13) Solar Equipment not specified as (11) or (12)

(2) Photovoltaic Cells and related equipment

(3) Energy Conservation Devices

  (31) Miscellaneous energy conserving devices

  (32) Insulation other than Cellulose

  (33) Clock thermostats and other energy monitoring controls

  (34) Doors and windows

  (35) Efficient lighting fixtures and lamps

  (36) Flow restriction for hot water lines

  (37) Individual meters to replace master meters for gas or electricity

  (38) Lighting controls

  (39) Automotive HVAC (heating, ventilation, and air conditioning) control systems

(4) Equipment the primary purpose of which is production of energy from wood, biological waste, grain, or other biomass source of energy.

  (41) Firewood

  (42) Fireplaces and Wood Burning Stoves

  (43) Wood chips, sawdust and other wood waste

  (44) Wood cutting devices

  (45) Alcohol-Gasohol Products

(5) Equipment the primary purpose of which is industrial cogeneration of energy, district heating or production of energy from industrial waste.

  (51) Heat recovery systems

  (52) Use of waste lubricating oils

(6) Hydroelectric power equipment

(7) Wind energy conversion equipment

(8) Engineering, Architectural, consulting or other professional services

  (91) Changes in an industrial process that conserves energy

  (92) Industrial processes that do not conserve energy themselves, but are necessary for an energy related field

  (93) Retail or wholesale institutions that deal in several energy fields

  (94) Products related to the use of coal or oil

  (99) General energy equipment and miscellaneous devices not listed elsewhere

TABLE IV

Distribution of Loans By "Stage of Commerce"

Stage	No. of Loans
Manufacturing	128
Wholesale	37
Retail	98
Service	8
Construction	4
Mining	1

*Total number of loans is greater than 229 because some businesses were considered to be in more than one stage of commerce.

TABLE V

Distribution of Loans by Region and State

Region I

State	No. of Loans
Maine	1
Vermont	2
Connecticut	9
New Hampshire	5
Massachusetts	9
Rhode Island	0
	26

Region II

State	No. of Loans
New York	8
New Jersey	2
Puerto Rico	1
	11

Region III

State	No. of Loans
Pennsylvania	1
Maryland	4
West Virginia	1
Virginia	1
Delaware	0
D.C.	0
	7

Region IV

State	No. of Loans
Georgia	5
North Carolina	2
South Carolina	2
Mississippi	2
Florida	10
Tennesee	4
Alabama	0
Kentucky	0
	25

Region V

State	No. of Loans
Illinois	9
Ohio	4
Michigan	4
Indiana	7
Wisconsin	4
Minnesota	12
	40

Region VI

State	No. of Loans
Texas	3
Arkansas	6
Oklahoma	1
New Mexico	0
Louisiana	0

Region VII

State	No. of Loans
Kansas	12
Nebraska	1
Iowa	1
Missouri	0
	14

Region VIII

State	No. of Loans
Colorado	20
Wyoming	1
North Dakota	7
South Dakota	7
Montana	9
Utah	0
	44

Region IX

State	No. of Loans
California	31
Nevada	1
Arizona	7
Hawaii	1
	40

Region X

State	No. of Loans
Washington	3
Oregon	3
Idaho	4
Alaska	2
	12

TABLE VI

Detailed Analysis of Energy Loan Program By Region

Region I

Total Number of Loans

Approved	25
Declined	1
TOTAL	26

Total Dollar Amount of Loans	Average Dollar Amount
$2,809,000	$108,000/Loan

Average Maturity

9 years/Loan

Type of Loan

Direct	15
Guaranty	11
	26

Use of Proceeds

Use	No. of Loans
Land	3
Construction or Building	4
Machinery and Equipment	8
Debt	1
Working Capital	4
Other	9

Type of Product

Product	No. of Loans
12	1
13	4
30	1
31	2
32	5
34	1
35	1
37	1
39	1
41	2
42	2
43	1
51	1
93	1
94	1
99	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	15
Wholesale	4
Retail	12
Service	1

Region II

Total Number of Loans

Approved	11
Declined	0
TOTAL	11

Total Dollar Amount	Average Dollar Amount
$1,320,000	$120,000/Loan

Average Maturity

9 years

Type of Loan

Direct	10
Guaranty	1

Use of Proceeds

Use	No. of Loans
Machinery and Equipment	3
Debt	1
Working Capital	4
Other	3

Type of Product

Product	No. of Loans
11	1
13	4
30	2
32	1
33	1
80	1
99	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	7
Wholesale	2
Retail	3
Service	1

Region III

Total Number of Loans

Approved	7
Declined	0
Total	7

Total Dollar Amount	Average Dollar Amount
$1,385,000	$198,000/Loan

Average Maturity

12 years

Type of Loan

Direct	5
Guaranty	2

Use of Proceeds

Use	No. of Loans
Land	1
Machinery and Equipment	1
Debt	1
Other	4

Type of Product

Type	No. of Loans
12	2
13	2
32	1
42	1
91	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	5
Retail	3

Region IV

Total Number of Loans

Approved	25
Declined	0
Total	25

Total Dollar Amount	Average Dollar Amount
$3,554,000	$142,000

Average Maturity

7.4 years

Type of Loan

Type	Number
Direct	12
Guaranty	13

Use of Proceeds

Use	No. of Loans
Construction or Building	3
Machinery and Equipment	10
Debt	4
Working Capital	3
Other	8

Type of Product

Product	No. of Loans
13	5
30	2
32	6
38	1
39	1
42	5
43	1
44	1
45	3
51	1
52	3
80	2
91	1
92	1
93	2
99	5

Stage of Commerce

Stage	No. of Loans
Manufacturing	18
Wholesale	4
Retail	19
Service	1
Construction	3

Number of loans made for new product or process -- 5

Region V

Total Number of Loans

Approved	37
Declined	3
Total	40

Total Dollar Amount	Average Dollar Amount
$5,392,000	$135,000/Loan

Average Maturity

10 years

Type of Loan

Type	Number
Direct	22
Guaranty	18

Use of Proceeds

Use	No. of Loans
Construction or Building	6
Machinery and Equipment	11
Debt	5
Working Capital	9
Other	14

Type of Product

Type	No. of Loans
11	1
13	5
30	3
31	1
32	6
33	1
42	3
45	1
80	2
91	1
99	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	11
Retail	14
Service	1

Region VI

Total Number of Loans

Approved	8
Declined	2

Total Dollar Amount	Average Dollar Amount
$2,054,000	$205,000

Average Maturity

10 years

Type of Loan

Type	Number
Direct	8
Guaranty	2

Use of Proceeds

Use	Number
Construction or Building	2
Machinery and Equipment	5
Working Capital	1
Other	3

Type of Product

Type	No. of Loans
13	1
30	1
31	1
32	1
33	1
39	1
45	2
80	2

Stage of Commerce

Stage	No. of Loans
Manufacturing	5
Wholesale	3
Retail	2
Service	2

Region VII

Total Number of Loans

Approved	14
Declined	0
Total	14

Total Dollar Amount	Average Dollar Amount
$1,625,000	$116,000

Average Maturity

8.5 years

Type of Loan

Direct	8
Guaranty	6

Use of Proceeds

Use	No. of Loans
Construction or Building	1
Machinery and Equipment	2
Debt	3
Working Capital	5
Other	3

Type of Product

Type	No. of Loans
30	1
31	3
32	1
34	2
37	1
45	1
80	1
91	2
93	1
99	1

BEST COPY AVAILABLE

Stage of Commerce

Stage	No. of Loans
Manufacturing	7
Wholesale	2
Retail	3
Service	2
Construction	1

Region VIII

Total Number of Loans

Approved	44
Declined	0
Total	44

Total Dollar Amount	Average Dollar Amount
$6,541,000	$149,000

Average Maturity

10 years

Type of Loan

Type	Number
Direct	30
Guaranty	14

Use of Proceeds

Use	No. of Loans
Land	3
Construction or Building	3
Machinery and Equipment	15
Debt	9
Working Capital	9
Other	

Type of Product

Type	No. of Loans
11	1
13	13
30	2
31	2
32	3
33	1
34	4
37	1
38	1
42	9
45	2
92	2
93	1
94	2

Stage of Commerce

Stage	No. of Loans
Manufacturing	25
Wholesale	5
Retail	20
Mining	1

Region IX

Total Number of Loans

Approved	38
Declined	2
Total	40

Total Dollar Amount	Average Dollar Amount
$6,545,000	$164,000

Average Maturity

9 years

Type of Loan

Type	Number
Direct	36
Guaranty	4

Use of Proceeds

Use	No. of Loans
Land	1
Machinery and Equipment	13
Debt	6
Working Capital	8
Other	16

Type of Products

Type	No. of Loans
11	7
13	18
20	2
30	2
31	2
32	4
35	1
36	3
93	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	27
Wholesale	4
Retail	17

Region X

Total Number of Loans

Approved	12
Declined	0
Total	12

Total Dollar Amount	Average Dollar Amount
$1,712,000	$143,00

Average Maturity

10 years

Type of Loan

Type	Number
Direct	9
Guaranty	3

Use of Proceeds

Use	No. of Loans
Construction or Building	3
Machinery	3
Working Capital	2
Other	4

Type of Product

Type	No. of Loans
11	1
13	2
31	3
42	2
43	1
45	2
93	1

Stage of Commerce

Stage	No. of Loans
Manufacturing	8
Wholesale	3
Retail	5

Distribution By Products

TABLE VII

Solar Energy Products (Product Codes 11, 12, 13, 20)

Distribution By Region

Region	No. of Loans
1	5
2	5
3	4
4	6
5	5
6	1
7	0
8	14
9	27
10	3
	70

Average Amount

$152,000/loan

Average Maturity

10 years

Distribution By Use of Proceeds

Use	No. of Loans
Land	2
Construction or Building	6
Machinery and Equipment	15
Debt	6
Working Capital	13
Other	30

Distribution by State of Commerce

Stage	No. of Loans
Manufacturing	37
Wholesale	10
Retail	36
Construction	1

Cellulose Insulation

Distribution by Region

Region	No. of Loans
1	2
4	1
6	1
7	3
8	2
9	2
10	3
	14

Average Dollar Amount

$161,000

Average Maturity

10 years

Distribution by Use of Proceeds

Use	No. of Loans
Construction or Building	2
Machinery and Equipment	4
Debt	7
Working Capital	2
Other	1

Distribution by State of Commerce

Stage	No. of Loans
Manufacturing	13
Wholesale	4
Retail	1

Insulation Other than Cellulose

Distribution by Region

Region	No. of Loans
1	5
2	1
3	1
4	6
5	6
6	1
7	1
8	3
9	4
	28

Average Dollar Amount

$139,000

Average Maturity

8 years

Distribution by Use of Proceeds

Use	No. of Loans
Land	1
Construction or Building	2
Machinery and Equipment	17
Debt	4
Working Capital	3
Other	6

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	12
Wholesale	1
Retail	18

Other Energy Conservation Devices (Product Codes 30, 33, 34, 35, 36, 37, 38 39)

Distribution by Region

Region	No. of Loans
1	5
2	3
4	4
5	4
6	3
7	4
8	9
9	6
	38

Average Dollar Amount

$127,000

Average Maturity

8 years

Distribution by Use of Proceeds

Use	No. of Loans
Land	1
Construction or Building	2
Machinery and Equipment	10
Debt	3
Working Capital	11
Other	14

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	24
Wholesale	8
Retail	10
Service	2
Construction	1

Wood or Wood Waste Conversion (Products coded 41, 42, 43, 44)

Distribution by Region

Region	No. of Loans
1	5
3	1
4	3
5	7
8	9
10	3

Average Dollar Amount

$132,000

Average Maturity

10 years

Distribution by Use of Proceeds

Use	No. of Loans
Land	4
Construction or Building	5
Machinery and Equipment	5
Debt	5
Working Capital	7
Other	7

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	13
Wholesale	8
Retail	15

Alcohol-Gasohol Products

Distribution by Region

Region	No. of Loans
4	1
5	3
6	2
7	1
8	2
10	2

Average Dollar Amount

$208,000

Average Maturity

11 years

Distribution by Use of Proceeds

Use	No. of Loans
Construction or Building	1
Machinery and Equipment	6
Other	4

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	9
Retail	2

Industrial Cogeneration (Product Codes 51, 52)

Distribution by Region

Region	No. of Loans
1	1
5	4
	5

Average Dollar Amount

$125,000

Average Maturity

8 years

Distribution by Use of Proceeds

Use	No. of Loans
Construction or Building	1
Machinery and Equipment	1
Debt	1
Other	2

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	4
Retail	2

Service Industries

Distribution by Region

Region	No. of Loans
2	1
4	2
5	2
6	2
7	1
	8

Average Dollar Amount

$177,000

Average Maturity

9 years

Distribution b, Use of Proceeds

Use	No. of Loans
Machinery and Equipment	3
Working Capital	3
Other	2

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	1
Wholesale	1
Retail	2
Service	5

BEST COPY AVAILABLE

Miscellaneous Products that Do Not Fall Elsewhere (Products Coded 91, 92, 92, 94, 99)

Distribution by Region

Region	No. of Loans
1	3
2	1
3	1
4	2
5	9
7	4
8	5
9	1
10	1

Average Dollar Amount

$121,000

Average Maturity

9 years

Distribution by Use of Proceeds

Use	No. of Loans
Construction or Building	4
Machinery and Equipment	8
Debt	4
Working Capital	6
Other	7

Distribution by Stage of Commerce

Stage	No. of Loans
Manufacturing	13
Wholesale	2
Retail	12
Service	1
Construction	2
Mining	1

APPENDIX G.—LETTER FROM EDWIN T. HOLLOWAY, COMMENTING ON SUBCOMMITTEE STAFF REPORT

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OCT 5 1982

Honorable Berkley Bedell
Chairman
Subcommittee on Energy, Environment,
and Safety Issues Affecting Small Business
House of Representatives
Washington, D.C. 20515

Dear Congressman Bedell:

This will respond to your request for comments on the Implementation Study of the SBA's Energy Loan Program dated July 1982 that was undertaken by your Subcommittee staff.

While we were pleased that the general findings of your survey revealed a very positive feeling about the Energy Loan Program, you have listed five recommendations for improvement of the program. We will comment on each of those recommendations as follows:

1. The paperwork burden must be reduced. Since the business loan application was revised October 1, 1981, we doubt that many of those interviewed have seen the new loan application. However, it is possible that such an applicant would still be of the opinion that the loan application is too voluminous. This opinion is shared by many applicants who are requesting Federal assistance for the first time. SBA utilizes the same loan application for all types of business loans being made to small business concerns. We believe, as a lender of public funds, that we must make certain requirements and obtain specific information in compliance with our operating legislation. Over the years, this information has been reduced to the minimum considered necessary to protect the Government's interest.

2. Provide applicants with better information up front. The implementation of a new program, similar to the launching of a new ship, requires a "shakedown" period. It is unusual that all employees of an office become familiar with a new program immediately. In addition, many SBA offices also utilize Service Corps of Retired Executives (SCORE) personnel in answering questions of prospective applicants or inquirees. This is the situation that confronted some of the individuals when they first inquired about the Energy Loan Program. We have had at least one loan officer or more in each district office that is fully informed on the program. Unfortunately, the inquiring party is not always put in contact with that loan officer.

We believe that our Fact Sheet on the program is sufficiently comprehensive to describe the details of the program. Those individuals contacting the Central Office have generally been furnished with a copy of the pertinent regulations in addition to the Fact Sheet. Within the limits of our personnel staffing, our field offices currently are attempting to provide better counseling on first contact for prospective energy loan applicants. We do believe that the survey results confirm that an effective job was done in acquainting the banks with this program - an essential step in promoting the program.

3. There should be fewer restrictions on use of the funds made available by SBA. In the beginning, the primary restrictions on use of funds related to research and development purposes, specifically because of the legislation restricting such use, and a restriction on working capital. However, as a result of complaints, concerning the working capital limitations, our regulations were amended deleting this restriction only 12 months after the program was started. There has been no restriction on the use of working capital funds since January 7, 1980.

As a result of criticism by the General Accounting Office at various times, SBA attempted to control the disbursement of funds by making partial disbursements and as the need for funds is justified. The control of such disbursements is not unusual in commercial lending, and this practice was instituted at the behest of GAO. While it is not intended that it will delay or create undue hardships in disbursements, it helps in avoiding overruns in construction and otherwise loose handling of the loan funds.

4. More post-award counseling is needed. The body of this recommendation couples program restrictions and a lack of counseling in such a way as to suggest that they are mutually exclusive. This is not the case. Terms, conditions, and restrictions are discussed above under Recommendation 3. In no case are restrictions imposed that would preclude counseling in any way. SBA agrees that counseling is very important and has devoted considerable resources to establishing and maintaining a meaningful management assistance program. This program utilizes Agency personnel, volunteer counselors, and in some cases contracted assistance paid for by the Agency. The ultimate success of such efforts, however, is dependent upon a timely request being made by the borrower, and a willingness on the part of the borrower to accept the advice provided. The specific terms and conditions for the

use of loan funds are directly as a result of the applicant's outlined request or breakdown in the application for the intended use of the funds. Therefore, when a loan is approved, the specific use of proceeds is tied in directly to the applicant's request. Unfortunately, the applicant many times will change his mind at a later date as the project progresses. Nevertheless, he may request in writing that the use of loan proceeds as set forth in the Loan Authorization be amended.

5. The SBA should take more risks. Our enabling legislation for the Energy Loan Program does require the loans to be of such sound value or so secured as reasonably to assure repayment. While it is true that the language involved indicates that SBA should take a greater risk than normally is taken under our regular Business Loan Program, we believe that Congress intended this to be a "loan program," not a grant. Based on the number of business failures to date in the program, it is obvious that SBA has taken some risks. Since Congress did not establish an acceptable loss or failure rate for the program, degree of risk taken on each case must be a credit judgement decision.

We hope the information given herein and at the hearings will satisfactorily answer your questions about the Energy Loan Program.

Sincerely,

Edwin T. Holloway
Associate Administrator
for Finance and Investment

APPENDIX H.—LETTER FROM KARL BERGEY

BERGEY
WINDPOWER

BERGEY WINDPOWER COMPANY, INC. • 2001 PRIESTLEY AVENUE • NORMAN, OKLAHOMA 73069
Telephone: 405/364-4212

October 1, 1982

The Honorable Berkley Bedell, Chairman
Committee on Small Business
UNITED STATES HOUSE OF REPRESENTATIVES
B-363 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Bedell:

This is just a short note to inform you that our application for an SBA-guaranteed loan has just been approved.

You may recall that I spoke briefly at the August 5, 1982, hearing on the status of Section T(L) loans. At that time, I noted that SBA 7(L) loans are often the only source of money for small energy-related companies when they need to expand.

This has certainly been true in our case. Capital for expansion seems to be virtually non-existent in the present business climate. The SBA-guaranteed loan will enable us to put our new larger windpower generator into production early next year. It will more than double our employment within a year and double it again by the end of the second year. At the same time, we believe our units will make a valuable contribution to the energy independence of the U.S.

We appreciate all your efforts, and those of the Committee, to establish the small business energy loan program. I am sure that your strong support for the program has been a major factor in its success, and that the August hearings had a favorable influence on our own application.

We will be glad to keep you informed of our progress.

Sincerely,

Karl H. Bergey Jr

Karl H. Bergey, Jr.
President

KHB:esr

CC: Marc H. Rosenberg

APPENDIX I.—STAFF MEMO, NOVEMBER 1982

BERKLEY BEDELL, IOWA
CHAIRMAN

NICHOLAS MAVROULES, MASS.
CHARLES HATCHER, GA.
DENNIS E. ECKART, OHIO

United States House of Representatives
Committee on Small Business
Subcommittee on Energy, Environment, and
Safety Issues Affecting Small Business
B-363 Rayburn House Office Building
Washington, D.C. 20515

SILVIO O. CONTE, MASS.
JOHN HILER, IND.
GUY V. MOLINARI, N.Y.

MARC H. ROSENBERG
SUBCOMMITTEE STAFF DIRECTOR
[illegible]

DONALD C. [illegible]
MINORITY SUBCOMMITTEE COUNSEL
[illegible]

November 8, 1982

TO: Hon. Berkley Bedell, Chairman

FROM: Marc H. Rosenberg, Staff Director

RE: Energy Loan Program - FY 82

In response to our request, the Small Business Administration recently provided figures for total activity in the energy loan program for fiscal year 1982. The figures show that the agency used less than 10% of the authority available to it.

Congress authorized and appropriated $25 million in authority for the small business energy loan program for FY 82. This was divided into $10 million for direct lending and $15 million for loan guarantees.

SBA says their preliminary data show that in FY 82 they issued 13 direct loans totalling $1,159,000 and issued 12 loan guarantees for a total of $1,280,850. (The latter figure represents the guaranteed portions of borrowings totalling $1,672,000.)

The total authority used in FY 82 for the energy loan program is $2,439,850. This figure, while substantially below prior years and clearly less than Congress intended, still compares favorably with the 13 loans and guarantees totalling approximately $1 million that SBA had issued in the 10 months prior to the Subcommittee's hearing on August 5.

At that time, the Subcommittee heard numerous complaints that SBA field offices were discouraging applications for energy loans and that many were actually denying the existence of a special energy loan program. At the Subcommittee's request, a memo was sent on August 13 from SBA headquarters to all relevant field offices, reminding them the energy loan program does exist and that it does have funds available for qualified applicants.

The memo to the field offices appears to have had some effect, as activity in the last two months of FY 82 equalled 150% of that during the preceding 10 months. Nonetheless, it should be noted that the Subcommittee has been informed of at least four seperate instances within the past month where potential energy loan applicants were turned away by local SBA offices, despite the continued availablity of funds under the Continuing Resolution. In cooperation with SBA's Washington headquarters, your Subcommittee staff has been able to resolve each of these problems on a case-by-case basis.

# \# \# \#

○

BEST COPY AVAILABLE